MACROECONOMIC REVIEW AND OUTLOOK FOR NIGERIA

COVID-19 Recovery: Not Yet Out of the Woods

December 2021

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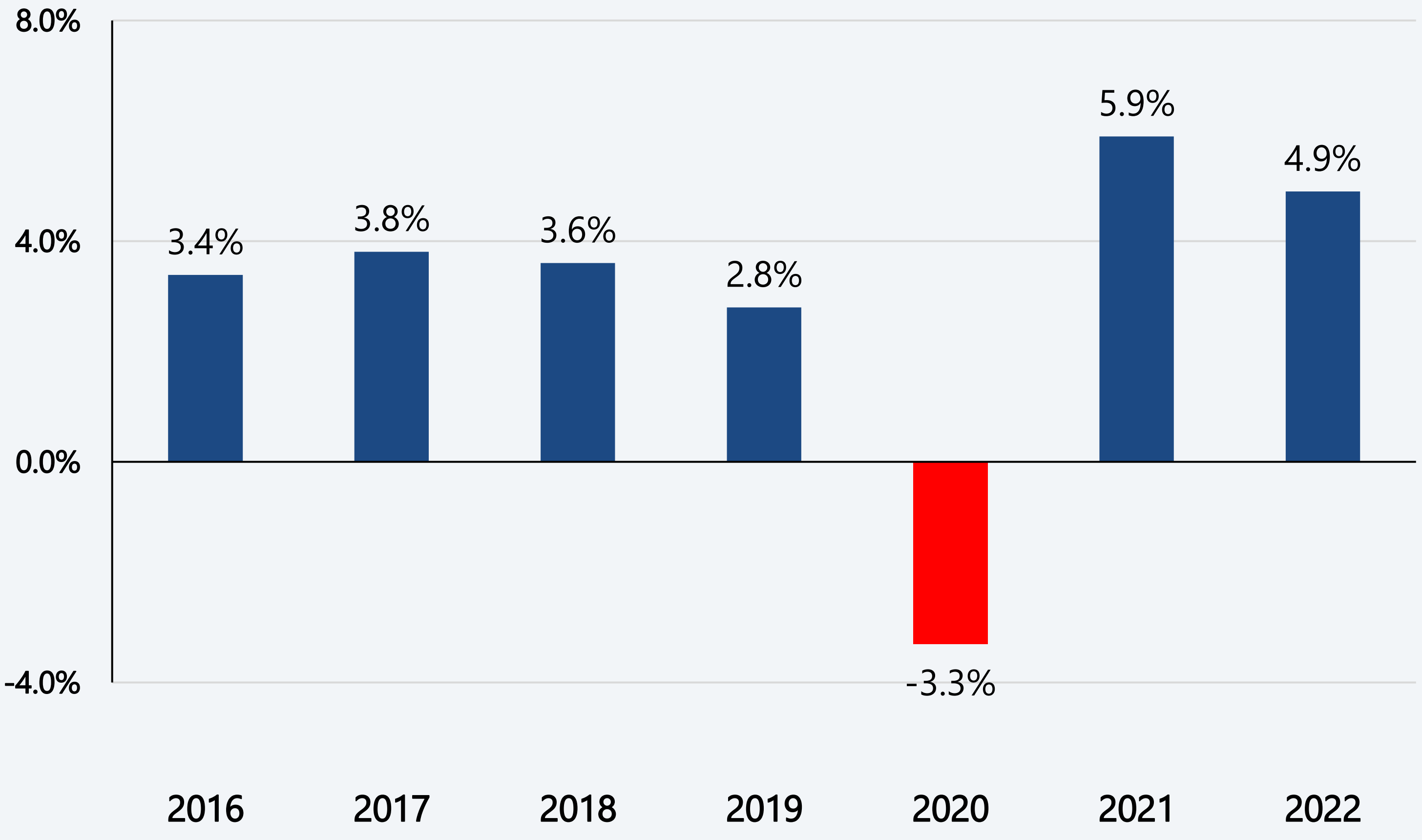
SECTION 01

Performance of the Global Economy

Global growth recovered in 2021 but Omicron Variant would stall Q4 performance

Global GDP Growth

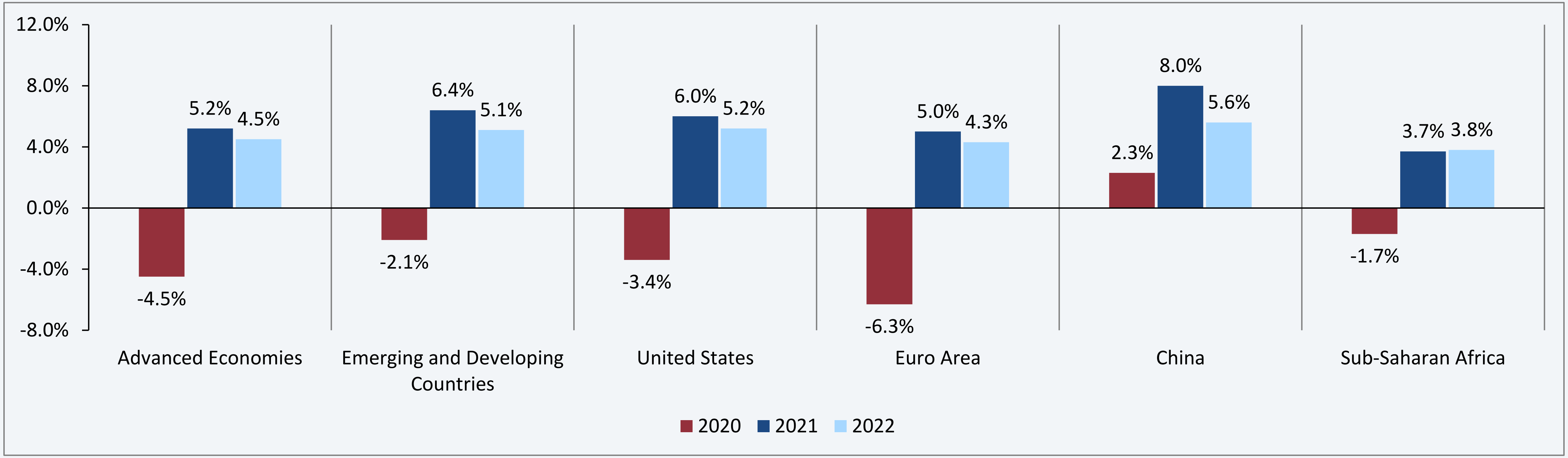


- Global GDP is expected to increase by 5.9% in 2021. This is a significant recovery from the recession recorded in 2020, owing to the COVID-19 impact.
- Improvement in vaccine administration in developed countries and increase in prices of commodities are factors that continue to drive growth in 2021.
- In addition, fiscal and monetary support from governments will continue to boost aggregate demand across economies.
- A major risk to growth in late 2021 and 2022 is the rapid spread of the COVID-19 Omicron variant which will trigger another round of restrictions across countries.
- In 2022, the global economy is expected to expand by 4.9%.

Data Source: International Monetary Fund (IMF)

Emerging and Developing countries will lead global recovery in 2022

GDP performance across countries and regions

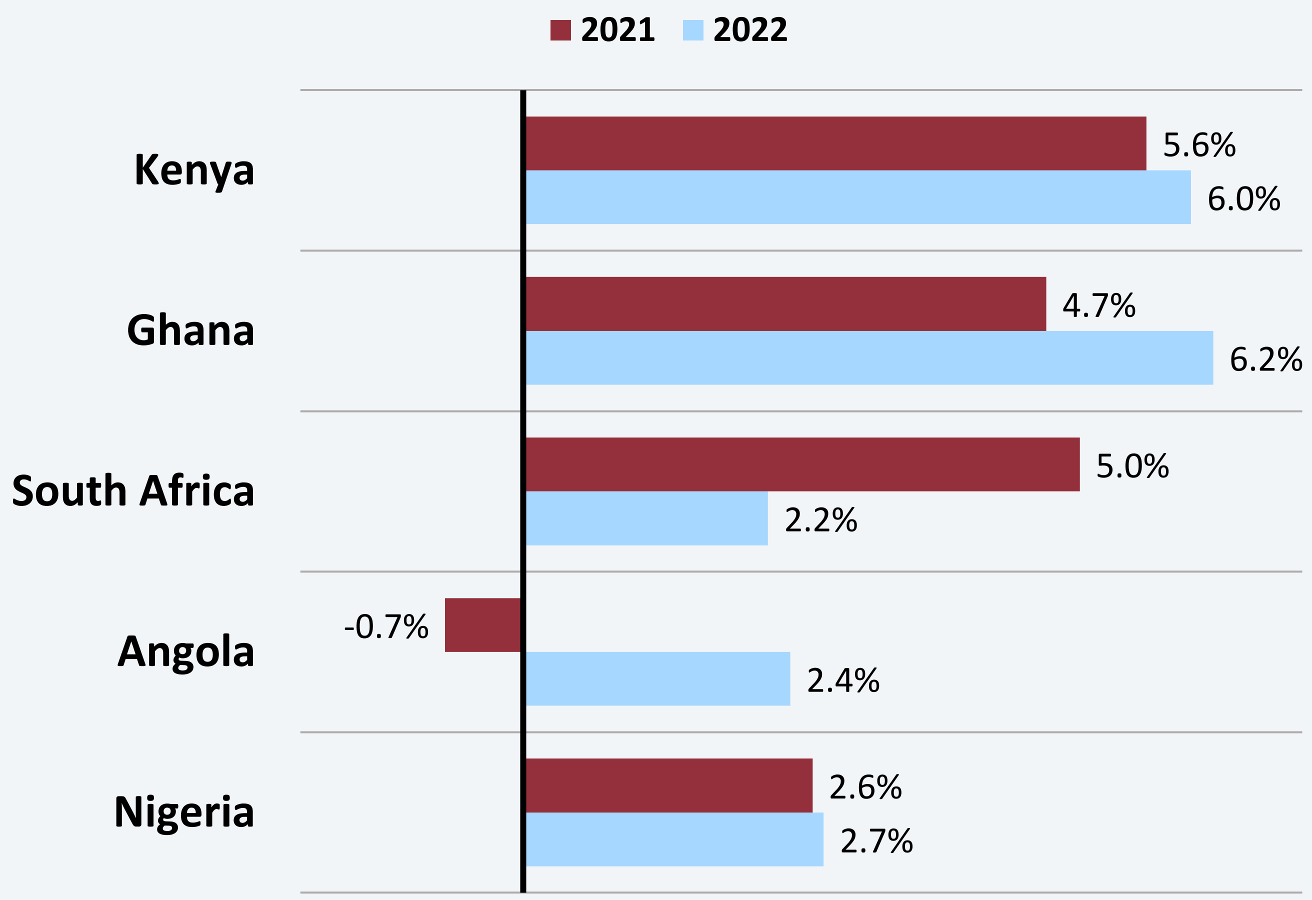


- In 2022, many countries and regions are expected to continue on the path of economic recovery.
- Vaccine administration and government fiscal stimulus will continue to influence the direction of economies.
- For developing countries, particularly sub-Saharan African countries, commodity prices will play a key role in shaping economic outcomes in 2022.

Data Source: International Monetary Fund (IMF)

Commodity prices, omicron variant will influence Growth of African Countries

GDP Growth of Select African Countries



- Sub-Saharan Africa is projected to grow by 3.8% in 2022.
- While this is a welcomed development, growth in the region is below the projected global growth of 4.9%.
- The discovery of the Omicron variant is expected to slow down recovery in several SSA countries, especially given the slow pace of vaccination.
- Although South Africa is expected to rebound in 2021, the IMF notes that the economy will be constrained in 2022, following the limited pace of structural reforms.
- While growth is expected to improve in oil exporting countries such as Republic of Congo, Gabon and South Sudan, the Omicron variant poses a threat to higher oil prices in 2022.

Data Source: International Monetary Fund (IMF)

Oil prices rose significantly in 2021, reached a 3-year high of US$85.6pb in Oct 2021

Europe Brent Spot Price FOB (US Dollars Per Barrel)

- For the most part of 2021, crude oil price trended upwards. Brent crude oil spot price, which opened the year at US$50.4pb, peaked at US$85.7pb in October 2021.
- Prices later fell to US$71.8pb on Dec 20, 2021. This represents a year-to-date increase of 42.5%.
- Higher crude oil demand, following the recovery of economies from the devastating impact of the pandemic and production cuts by oil producing countries, kept prices afloat.
- As oil producing countries plan to increase production gradually, prices are expected to trend downwards in 2022 relative to 2021. The IMF assumes an oil price of $64.52 per barrel in 2022.

Data Source: U.S. Energy Information Administration

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Oil producers continue to relax monthly production cuts by 0.4mb/d

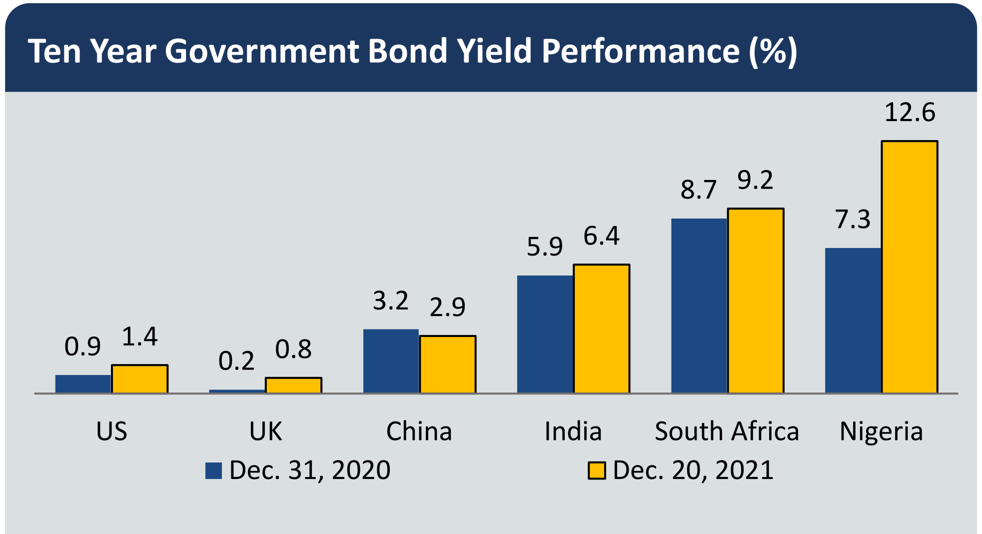
Voluntary Production Level in 1,000 barrels per day (Nov 2021 to Jan 2022)

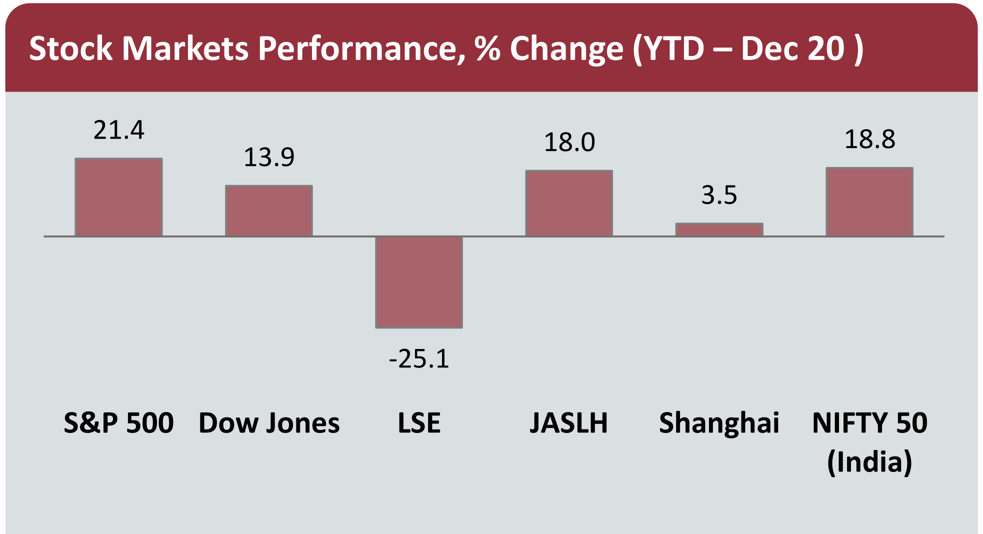
		November 2021		December 2021		January 2022	
	Reference Production up to end of April 2022	Adjustment	Required Production	Adjustment	Required Production	Adjustment	Required Production
Algeria	1,057	-105	952	-95	962	-85	972
Angola	1,528	-151	1,377	-136	1,392	-122	1,406
Congo	325	-32	293	-29	296	-25	300
Eq. Guinea	127	-12	115	-11	116	-10	117
Gabon	187	-19	168	-17	170	-15	172
Iraq	4,653	-460	4,193	-416	4,237	-372	4,281
Kuwait	2,809	-277	2,532	-251	2,558	-224	2,585
Nigeria	1,829	-180	1,649	-163	1,666	-146	1,683
Saudi Arabia	11,000	-1,087	9,913	-982	10,018	-878	10,122
UAE	3,168	-313	2,855	-283	2,885	-252	2,916
OPEC 10	26,683	**-2,636**	**24,047**	**-2,383**	**24,300**	**-2,129**	**24,554**
Non-OPEC	17,170	**-1,523**	**15,647**	**-1,376**	**15,794**	**-1,230**	**15,940**
OPEC+	43,853	**-4,159**	**39,694**	**-3,759**	**40,094**	**-3,359**	**40,494**

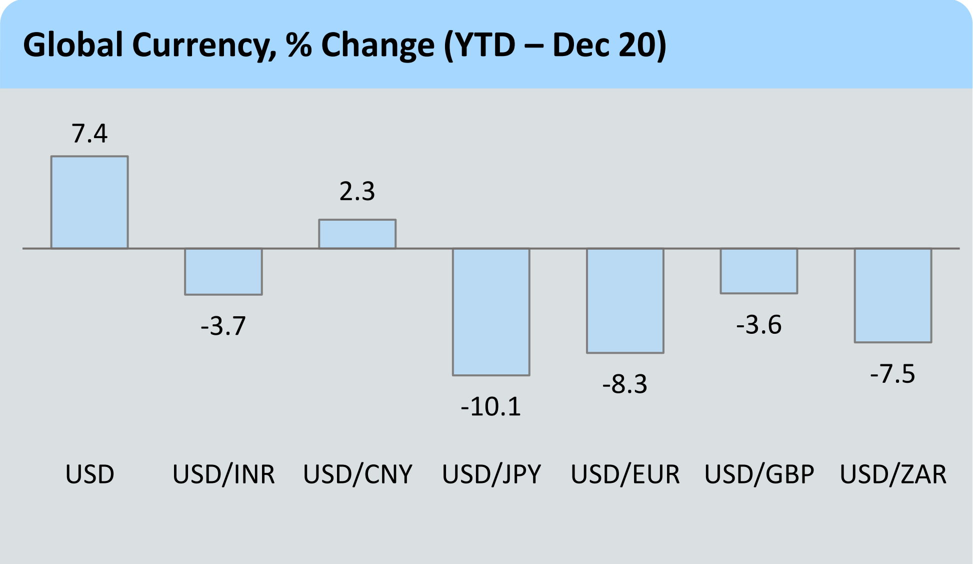
- Oil production cuts are falling as OPEC+ countries implement the planned production increase of 400,000 barrels per day.
- The decision to continue the upward adjustment in monthly production was reconfirmed at the 23rd OPEC and non-OPEC Ministerial Meeting (ONOMM) held in December 2021.
- Production cut which was 5.76 million in July now stands at 3.76 million in December. These cuts will boost global oil supply and could limit the possibility of higher oil prices in 2022.
- In view of the spread of the Omicron Variant, OPEC leaders have agreed to meet in early January to review developments regarding crude oil supply.

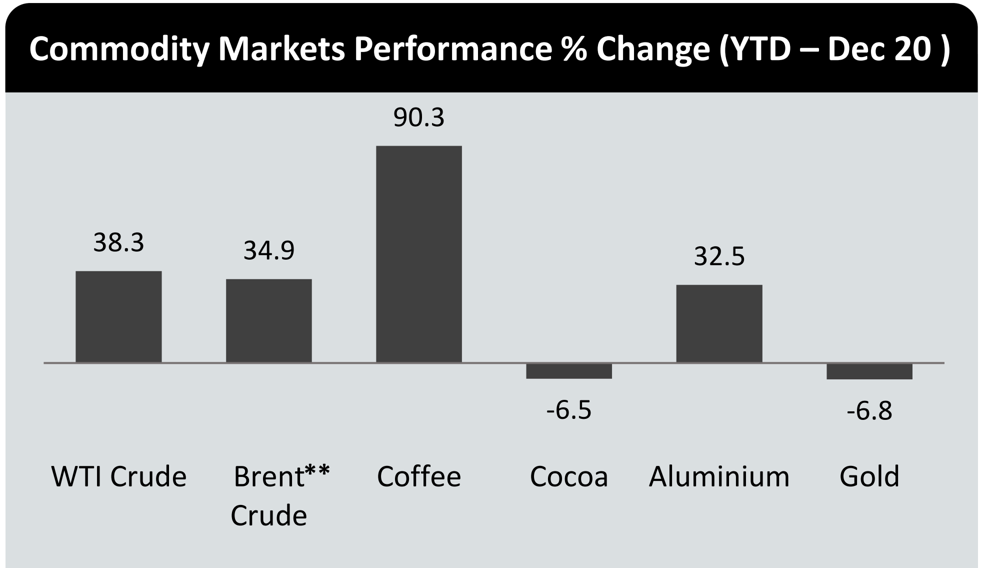
Data Source: Organization of Petroleum Exporting Countries (OPEC)

Global Markets Performance in 2021









Data Source: investing.com

**Brent Oil Futures

SECTION 01

Analyst Views on the Global Economy and Africa

Global Economy

- The Omicron variant, vaccines coverage and government stimulus are factors that will influence the trajectory of the global economy in 2022.
- With the Omicron variant and the reactions of countries, particularly the advanced countries, global growth for 2022 will fall short of the IMF's projection of 4.9%.
- Disruption in supply chain will continue as the level of uncertainty rises. This, along government stimulus and high oil prices, will increase inflation in advanced countries. Already in 2021, inflation trended upwards in the United States, Germany and several emerging economies.
- Developing and emerging countries are expected to drive global growth in 2022. Improved conditions for commodity exporters, pick-up in local demand and increase in government interventions raise the growth prospects for these countries.

African Economy

- The discovery of COVID-19 Omicron Variant will influence the direction of African countries in 2022.
- Following the announcement of the variant, several countries placed travel ban and restrictions on many African countries to limit the spread of the variant. Countries such as Nigeria, South Africa, Namibia and Botswana were among the affected.
- Such bans, if they persist, will limit the movement of people and goods and affect key sectors like transportation, tourism and hospitality going into 2022.
- Slower vaccination of Africans in Africa will also be a major concern in 2022. Vaccination rates are, however, expected to improve following increase pressure on countries in the global south to make vaccines available for African countries. The spread of the Omicron variant will also trigger individuals to get vaccinated in 2022.
- Relatively lower commodity prices in 2022, following the Omicron variant, will be pose a major challenge for commodity reliant countries like Nigeria and Angola.

Nigeria in 2021:
Snapshot of Major Activities that influenced Economic Outcomes

SECTION 02

Key events/policy interventions in 2021

1 Higher Crude Oil Price

Crude oil price remained high in 2021 relative to 2020. Higher price was sustained by OPEC cuts which also affected Nigeria's output.

2 Increased Foreign Borrowings

The federal government accumulated huge foreign debts in 2021 including the Eurobond and SDR from the IMF. These borrowings improved external reserves in 2021.

3 Early Budget Passage

Following the early passage of the 2021 budget, implementation improved. N1.76 trillion was spent on capital projects from January - August 2021.

4 Insecurity Challenges

Different forms of insecurity persisted across the country, deterring investments into key areas/sectors.

5 Harmonization of FX rate

The adoption of the NAFEX (I&E Window) rate as the official rate in May 2021 led to stability of rate in the official market but pressure intensified in the parallel market.

6 Passage of the PIA

The passage of the Petroleum Industry Act (PIA) in August 2021 was largely welcomed by stakeholders. The Act has the potential to unlock new opportunities in the Oil & Gas industry.

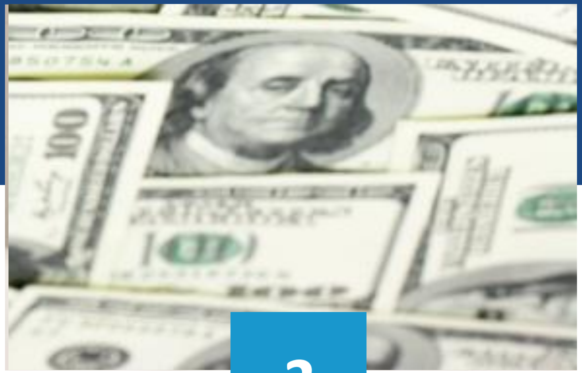
Above all, COVID-19 continued to influence outcomes in 2021

Key events/policy interventions in 2021

1.

Higher Crude Oil Prices

- Despite a higher crude oil price in 2021, Nigeria's reserves felt significant pressures for the most part of the year.
- This is because OPEC and OPEC + members agreed to maintain output cuts to sustain higher prices.
- Nigeria suffered production cut of about 250,000 barrels per day (bpd) in July with an output of 1.579 million barrels per day.



2.

Increased Foreign Borrowings

- In the 2021 Budget, new borrowings were projected at N5.5 trillion out of which N2.74 trn is foreign borrowings. This amounts to US$7.2 billion using the budget exchange rate.
- In the third quarter of 2021, the federal government raised US$4billion with yields ranging from 6.125% and 8.25% for the different tenures. Nigeria also received $3.35 billion SDR allocation from the IMF.
- These borrowings boosted external reserves in the fourth quarter of 2021.

BUDGET **2021**

3.

Early Budget Passage

- The early presentation of the 2021 budget by the President is a good feature that has been sustained within the last few years.
- Timely budget passage is a necessary factor in improving budget implementation.

SECTION 02

Key events/policy interventions in 2021

INSECURITY

4.

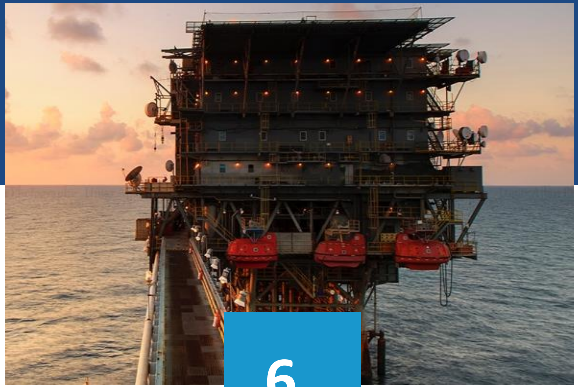
Insecurity Challenges

- Challenges relating to banditry, kidnapping and theft were prevalent in different parts of the country in 2021.
- These challenges had negative implications on agricultural output, investments in the real sector, movement of people and goods, transport costs and overall inflation.

5.

Harmonization of FX rate

- The unification of exchange rate by the Central Bank was a long-awaited measure that provided some level of clarity in the market.
- As a result, there was stability of exchange rate in the I&E window. However, parallel market rates depreciated mainly due to speculation, restrictions and limited inflows.
- Demand pressures are still high in the FX market, while inflows are constrained.



6.

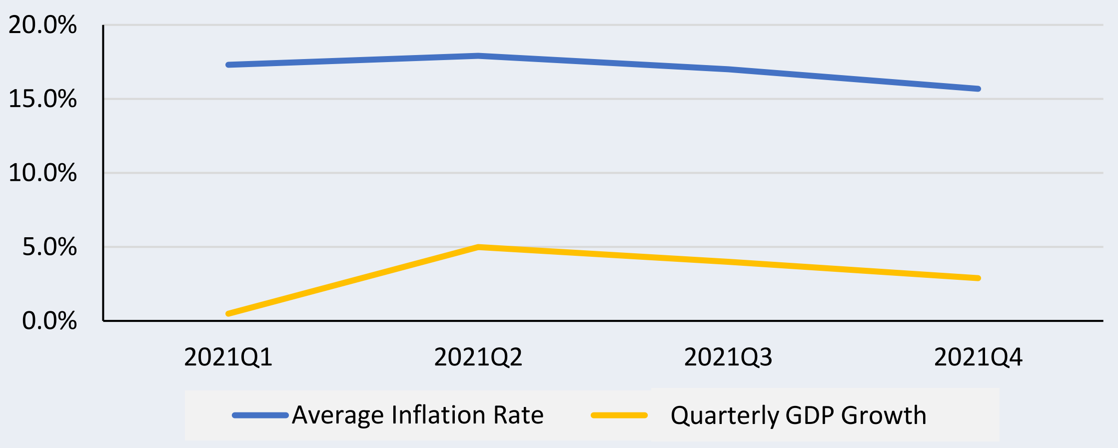
Passage of the PIA

- The Petroleum Industry Act (PIA) lays down a holistic fiscal, regulatory and institutional framework for Nigeria's petroleum industry.
- Following its passage, the government has inaugurated a Steering Committee on the Implementation of the Act.

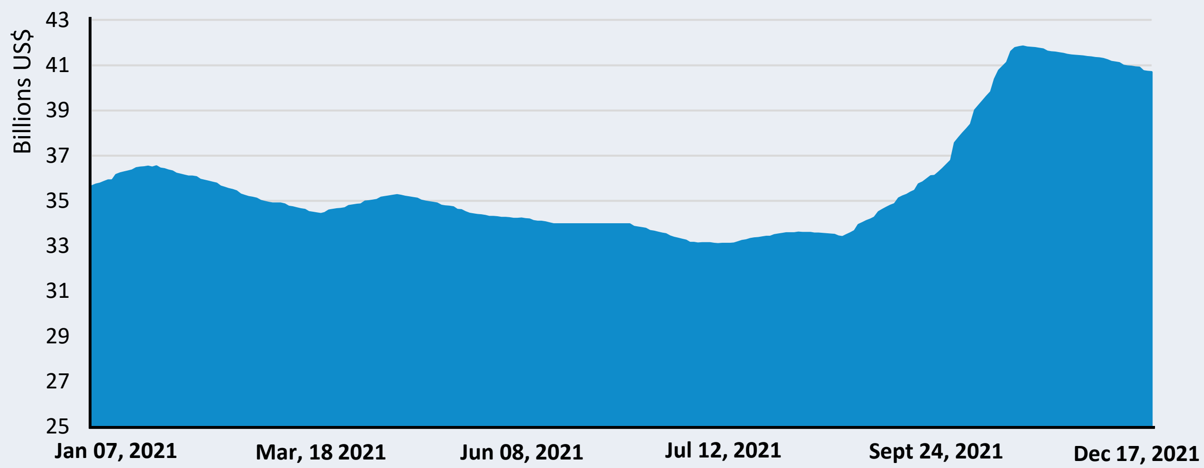
A combination of these six factors, among others, influenced economic outcomes in 2021

Nigeria in 2021: Four Charts that explained the Economy

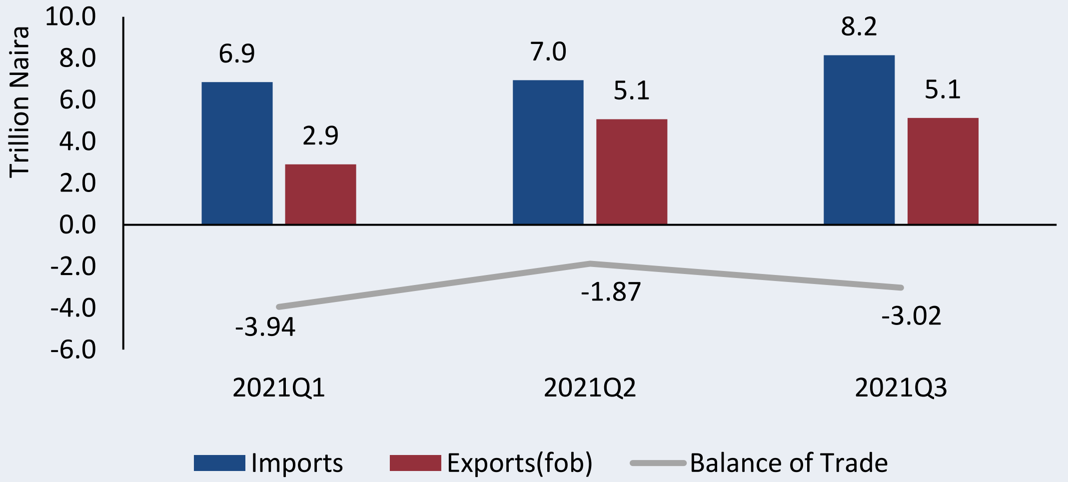
Real GDP growth Improved while Inflation Rate subsided



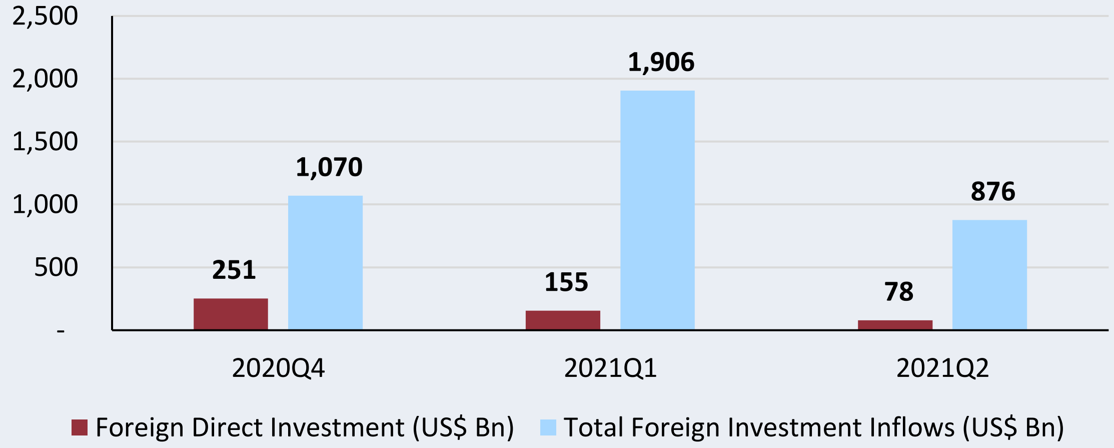
External Reserves Improved in Q4 due to foreign borrowings



Trade remained challenged with widened deficits



Investment inflows declined due to tough business environment



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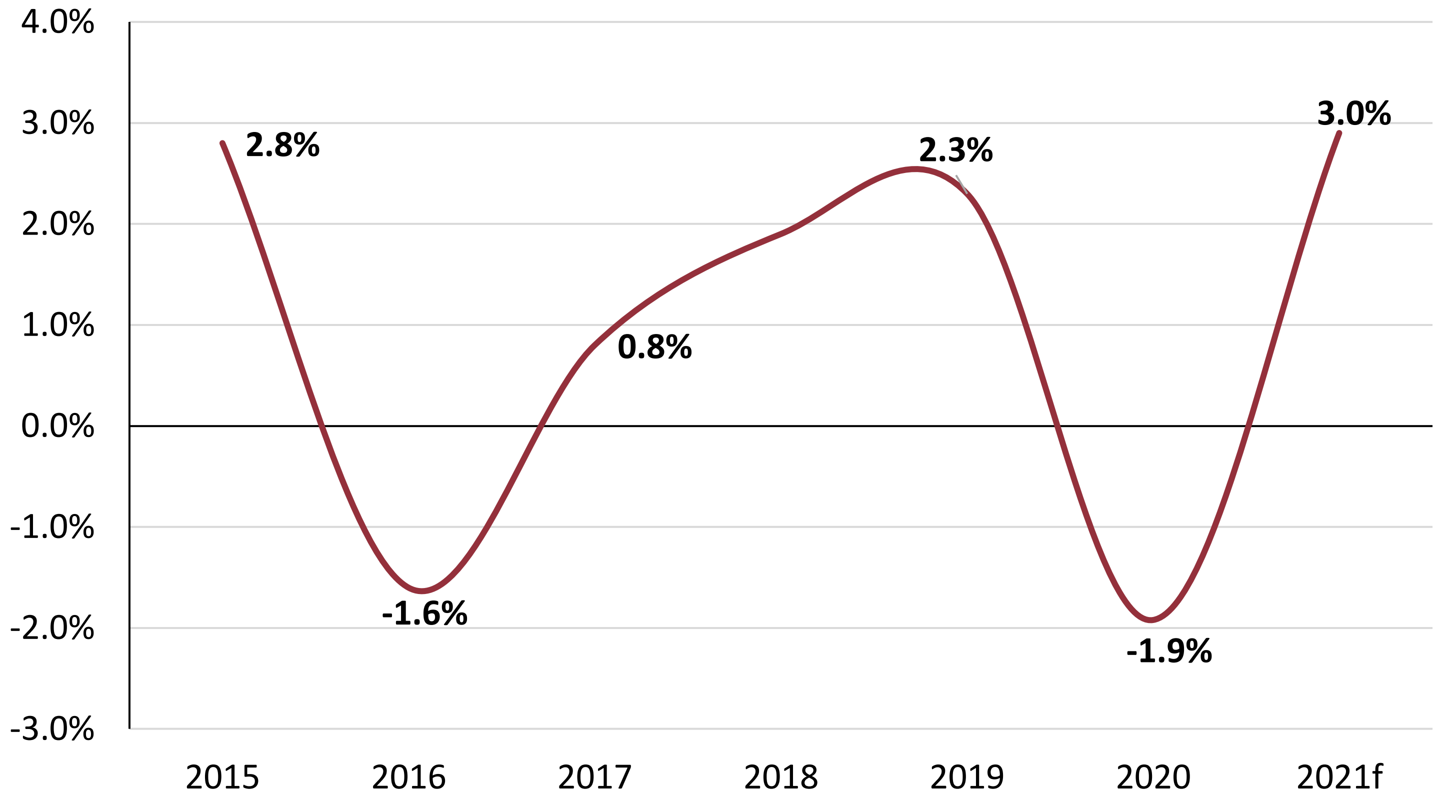
Data Source: National Bureau of Statistics and Central Bank of Nigeria

Nigeria’s Macroeconomic Update

Nigerian economy showed a W-shaped recession-recovery cycle in the last five years

Nigeria's Real GDP growth

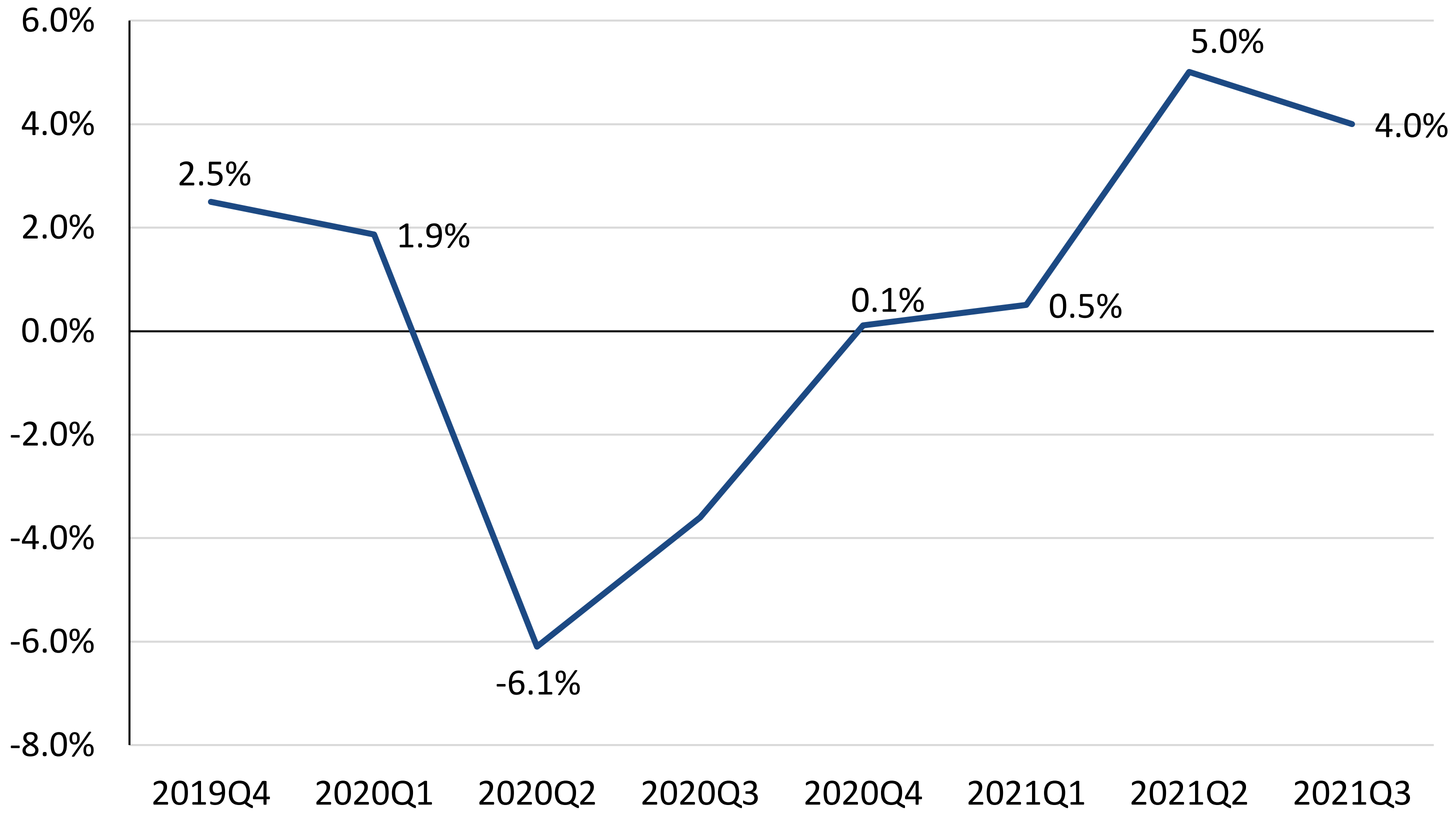


- In the last five years, Nigeria experienced two economic recessions, exhibiting a W-shaped recession-recovery cycle.
- Economic fluctuations in the past few years have been linked with movements in crude oil price.
- The two periods of recession (2016 & 2020) have reversed the gains recorded in their respective preceding periods.
- In full year 2021, the Nigerian economy will return to positive growth, driven by the higher consumer spending relative to 2020, government interventions and the base effect.

Data Source: National Bureau of Statistics

As expected, quarterly GDP Growth in Q3 showed a slowdown in recovery

Nigeria's Quarterly Real GDP growth



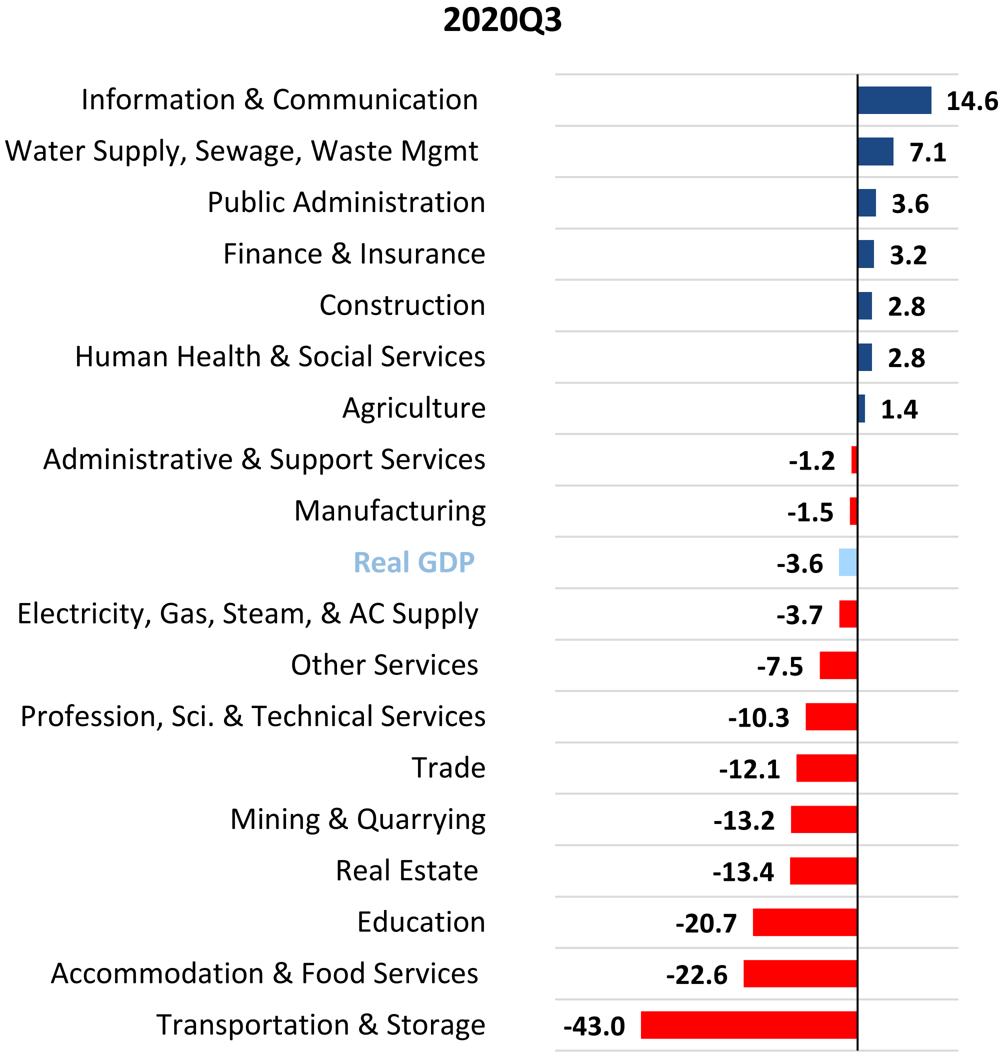
- On a year on year basis, the Nigerian economy expanded by 4% in the third quarter of 2021.
- Growth in Q3 was slightly lower than the 5% recorded in Q2 due to the gradual fading out of the base effect.
- The economic expansion was driven by the non-oil sector which grew by 5.4% in the quarter.
- The oil sector, on the other hand, continued in its negative growth trend, declining by 10.73% in the quarter.
- While the services sector expanded by 8.41%, the growth of agriculture slowed further to 1.2% in the quarter. The industrial sector declined by 1.6% due to the contraction in the oil sector.
- In the first three quarters of 2021, GDP growth averaged 3.18%.

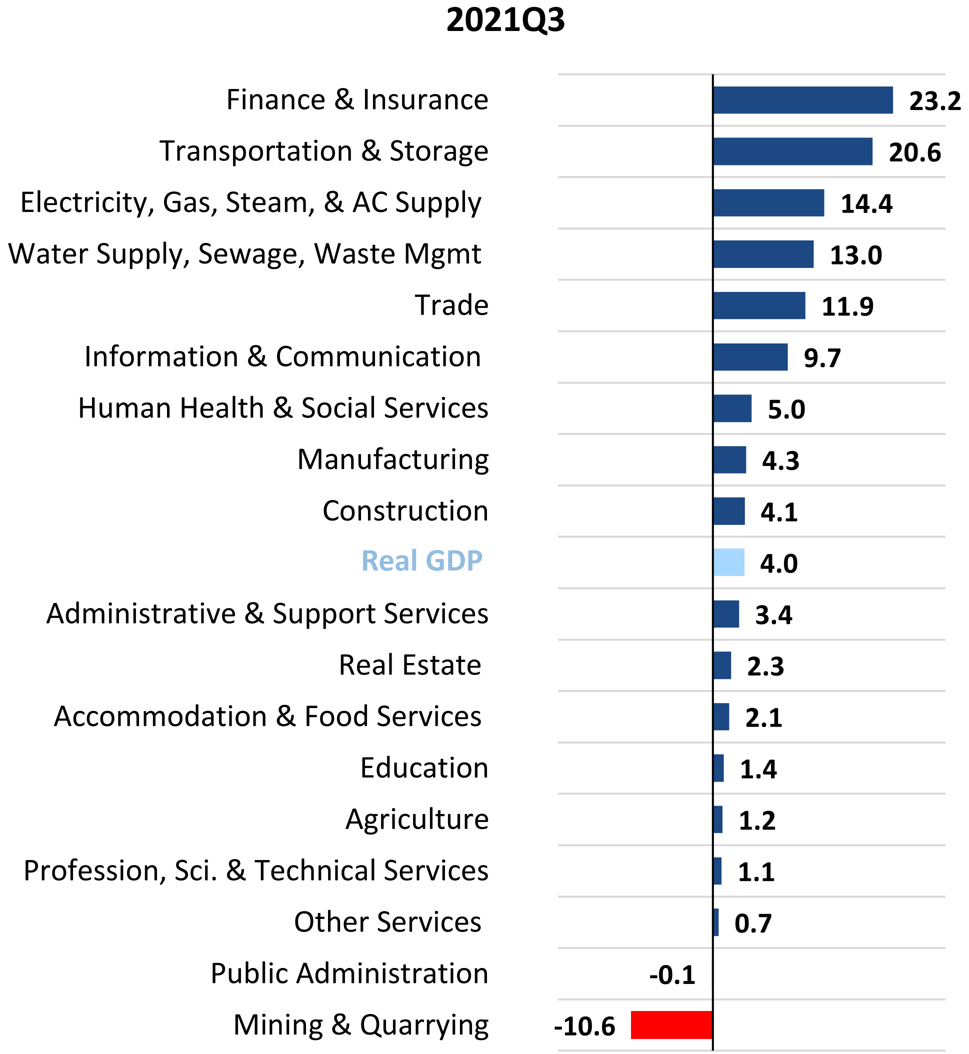
Data Source: National Bureau of Statistics

SECTION 03

Only two sectors showed a decline in output in 2021Q3

Sectoral GDP Growth (%)

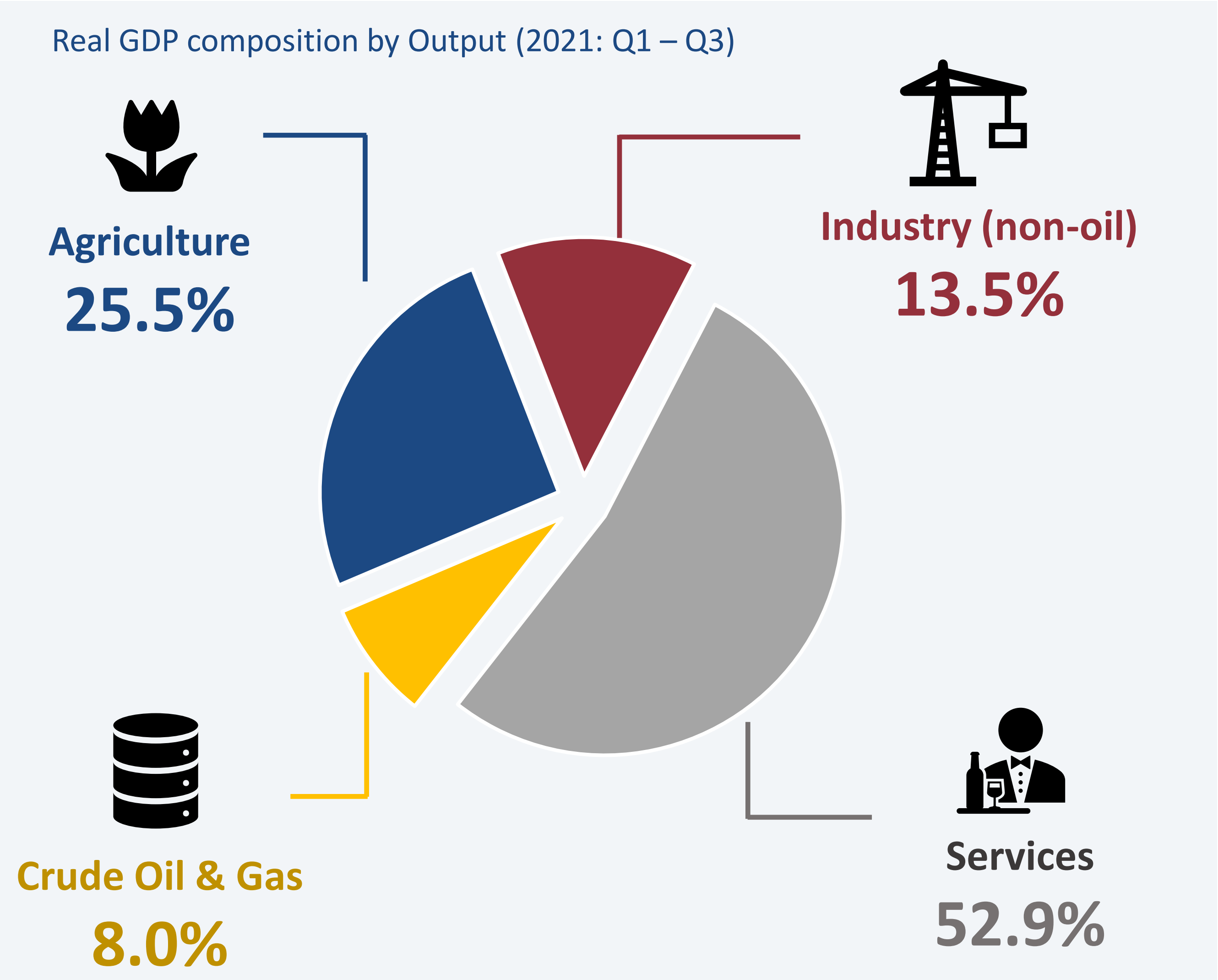




- In the third quarter of 2021, only two sectors recorded negative growth.
- The crude oil sector (captured within mining & quarrying) continued to suffer from OPEC+ agreed production cuts which has limited production volumes.

Data Source: National Bureau of Statistics

Services sector and Household Consumption dominate GDP

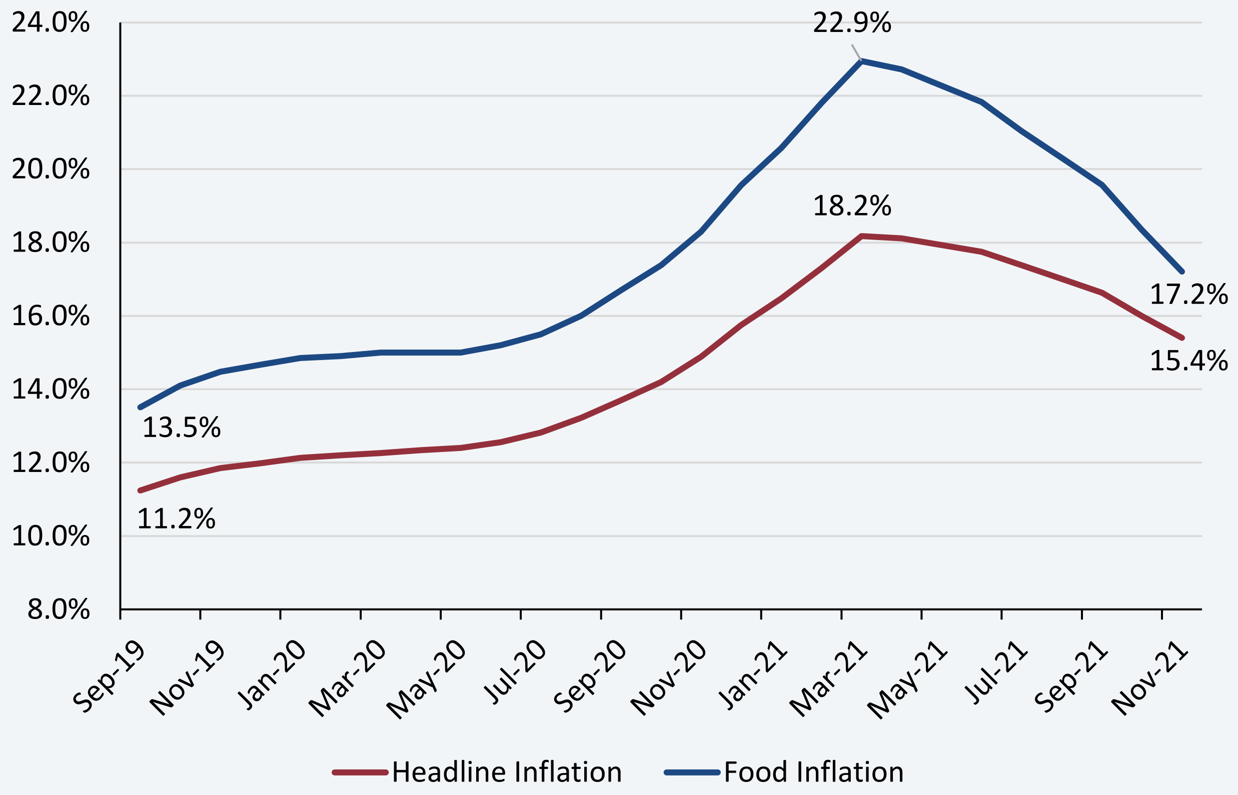


- Agriculture's share of GDP stood at 25.5% in the first three quarters of 2021. This is the same share recorded in 2020.
- The sector continues to face challenges of low productivity, logistics issues and insecurity.
- While Services share remained at 53%, the industrial sector, led by non-oil industry accounted for 21.5% of GDP in the period.
- In terms of GDP by Expenditure, Household Consumption accounted for 76% of GDP in 2021H1, while investment as a share of GDP stood at 17.2%.
- In summary, Nigeria has not experienced any change in the structure of the economy and the Services sector continues to dominate economic output.

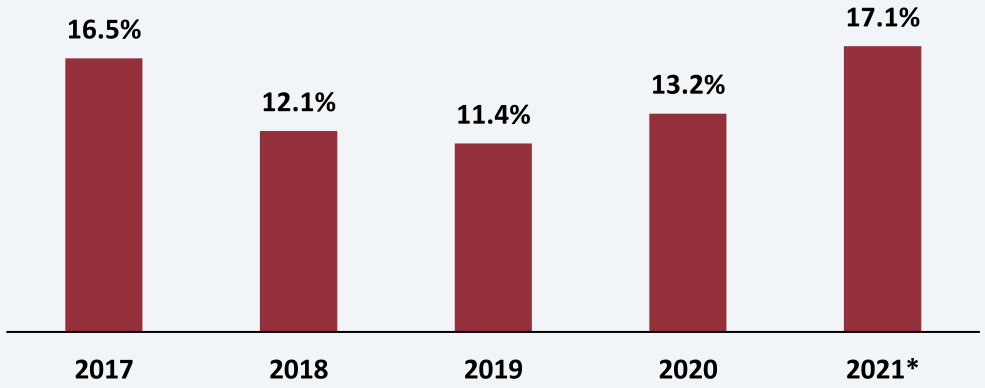
Data Source: National Bureau of Statistics

Inflation rate continues its downward trend in 2021Q4

Nigeria's Inflation Rate (%)



Annual Average Inflation Rate



*Jan to Nov

- For the eight consecutive month, headline inflation rate declined to 15.4% in November 2021 from 18.2% in March 2021, driven by reduced pressure on food inflation rate.
- However, on an annual basis, average inflation rate remains high at 17.1% in 2021 (Jan to Nov) relative to 13.2% recorded in full year 2020.
- High prices remain a major concern for businesses and households, especially given the challenges associated with insecurity, infrastructure deficit and foreign exchange, all of which are factors that trigger inflation in Nigeria.

Data Source: National Bureau of Statistics

Average Inflation rate remains high in the first 11 months of 2021

Average Inflation Rate (Jan to Nov 2021)

Food & Non Alcoholic Bev. – 21%

This segment had the highest inflation rate in the first ten months of 2021. Food inflation was driven by insecurity, supply chain challenges, among other factors.

Imported Food 17%

Imported food inflation rate rose from 16.7% in January to 17.3% in November, driven mainly by foreign exchange problems and supply chain disruption.

Health 15%

With COVID-19, health inflation increased in 2021 as demand for healthcare services and products increased across the country.

Transport 15%

Transportation is one of the hardest-hit sectors that suffered as a result of the pandemic. COVID-19-induced restrictions in 2020/21 led to higher transport inflation rate in 2021.

Clothing and Footwear – 14%

Prices of clothing and footwears increased in 2021 on the back of foreign exchange scarcity and higher transport costs.

Data Source: National Bureau of Statistics

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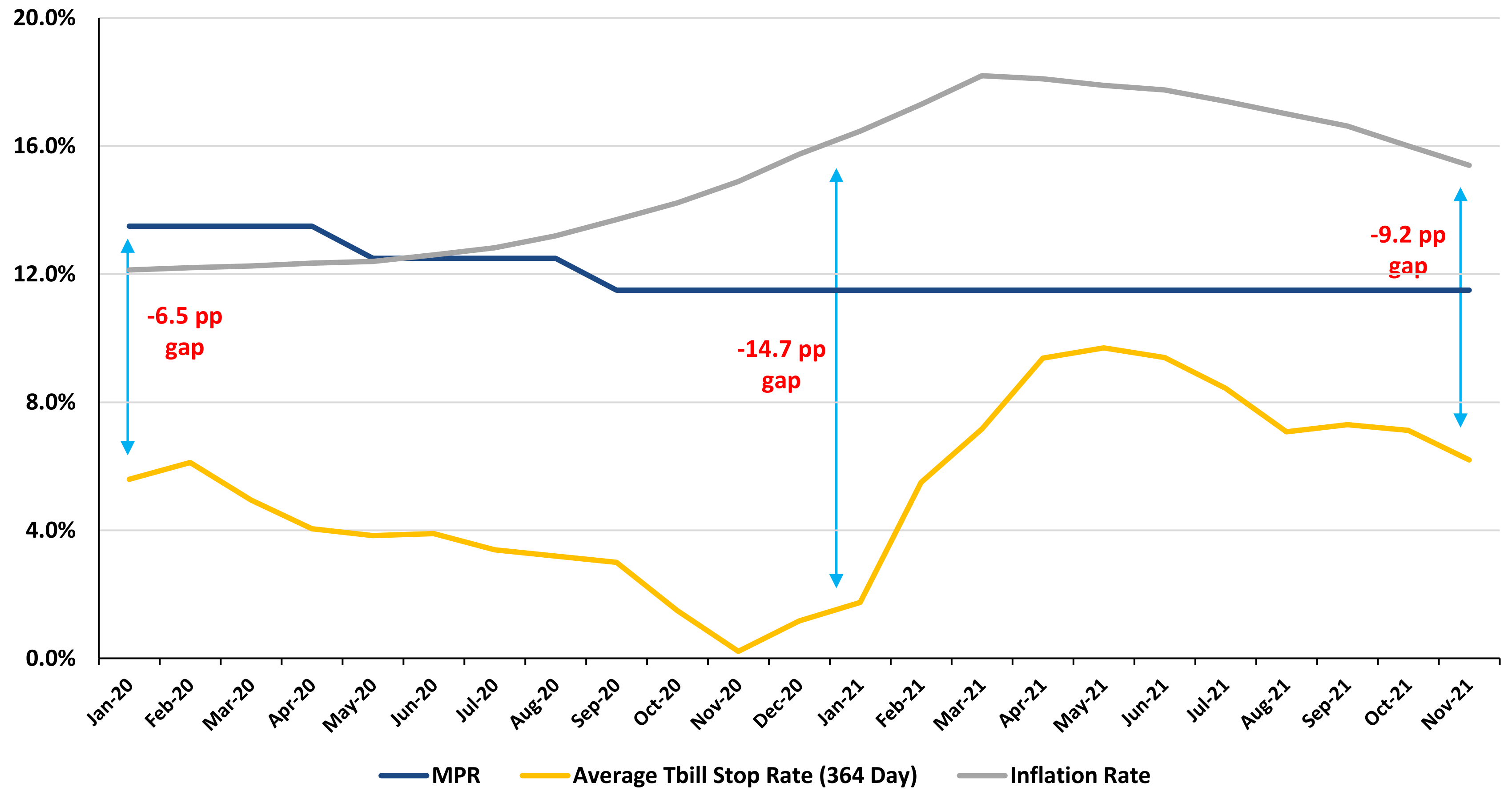
Despite the downward-trending inflation rate, real interest gap remained unchanged

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



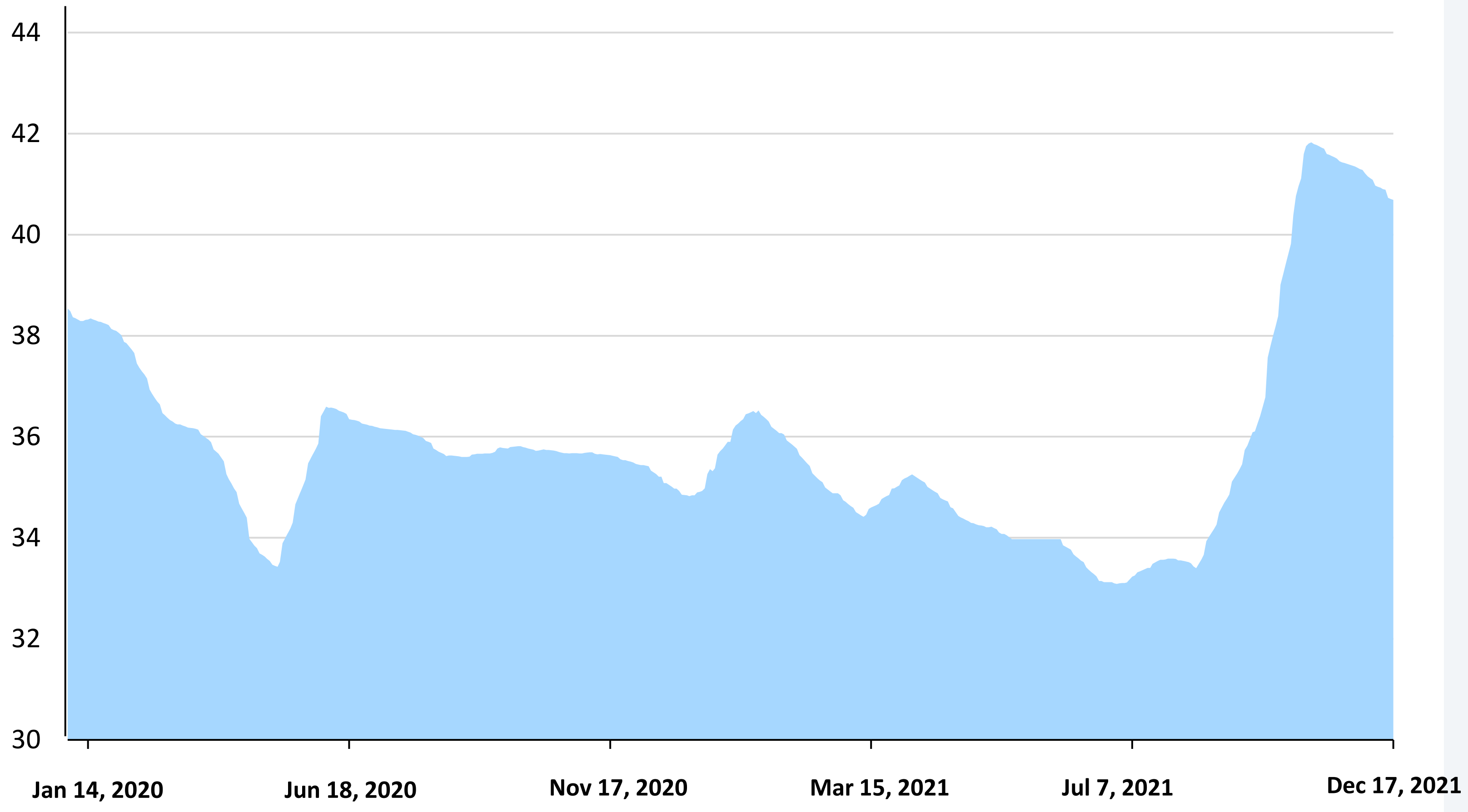
***pp - percentage points**

- In 2021, there was no improvement in real interest rate relative to 2020 despite the downward trending inflation rate.
- Interest rate, which picked up gradually at the beginning of the year declined from the month of May 2021.
- Average real interest rate in 2021 (January to November) was -9.9% (2020: -9.8%).
- For 2022, real interest gap is expected to narrow, as inflation rate falls gradually. Interest rate is expected to remain stable following more debt issuance in the year.

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

External Reserves improve following approval of SDR and Eurobond Issuance

Nigeria's External Reserves (US$ Billion)

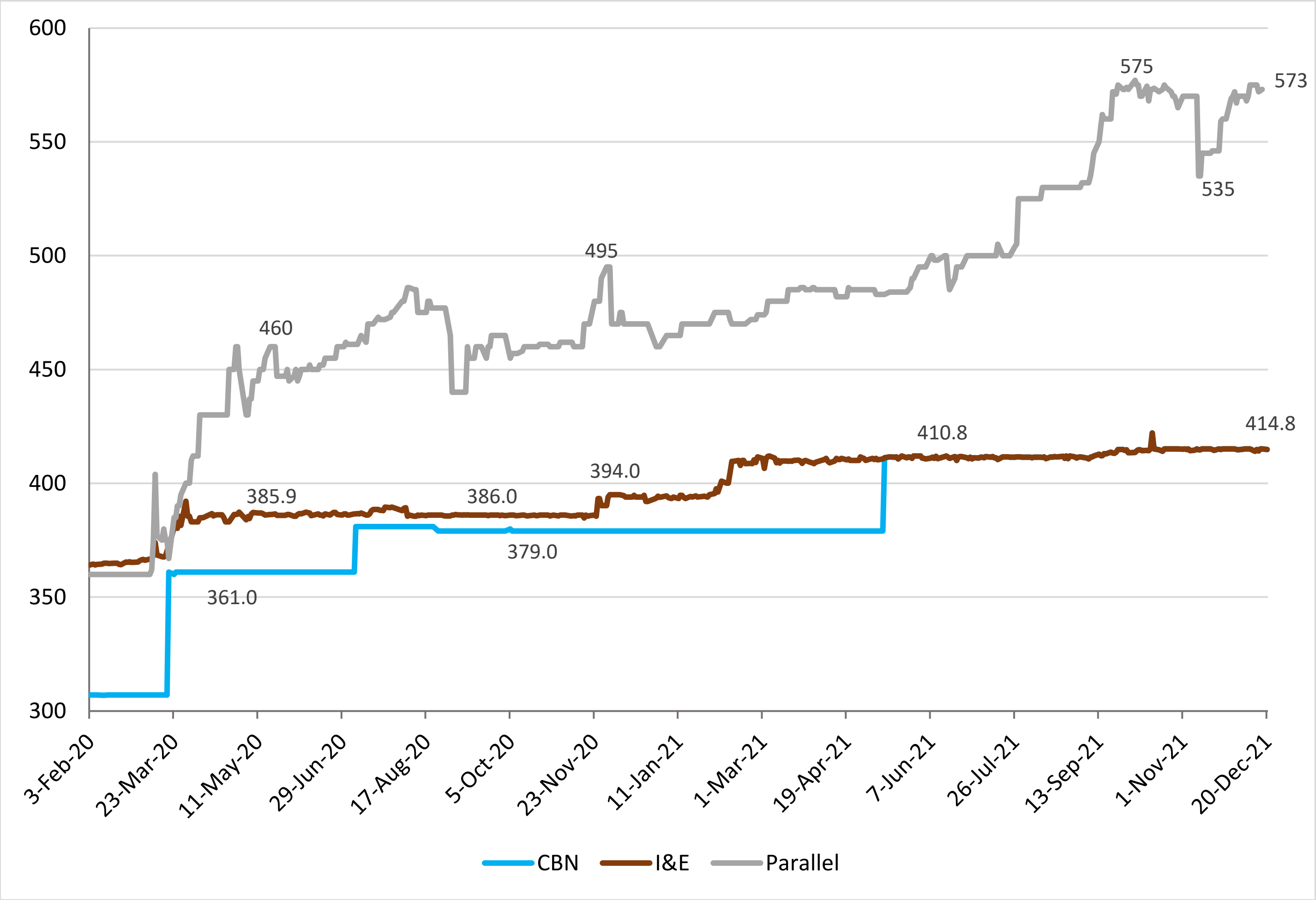


- Nigeria's external reserves will close 2021 on a higher note relative to the start of the year.
- Reserves, which opened the year at US$35.6 billion, rose to US$40.7bn on December 17, 2021.
- Key factors that led to the increase in external reserves include:
    - Approval of the US$3.35 billion Special Drawing Rights (SDRs) by the International Monetary Fund (IMF) in August 2021.
    - The US$4 billion raised from the issuance of Eurobond in September.
- Despite a much higher reserves, challenges of low crude oil production, limited investment inflows and high demand for foreign exchange are persistent.
- These factors will continue to add pressure on external reserves in 2022.

Data Source: Central Bank of Nigeria

Exchange rate stabilized in the I&E window but fluctuated in the parallel market

Nigeria's Exchange Rate (N/US$)

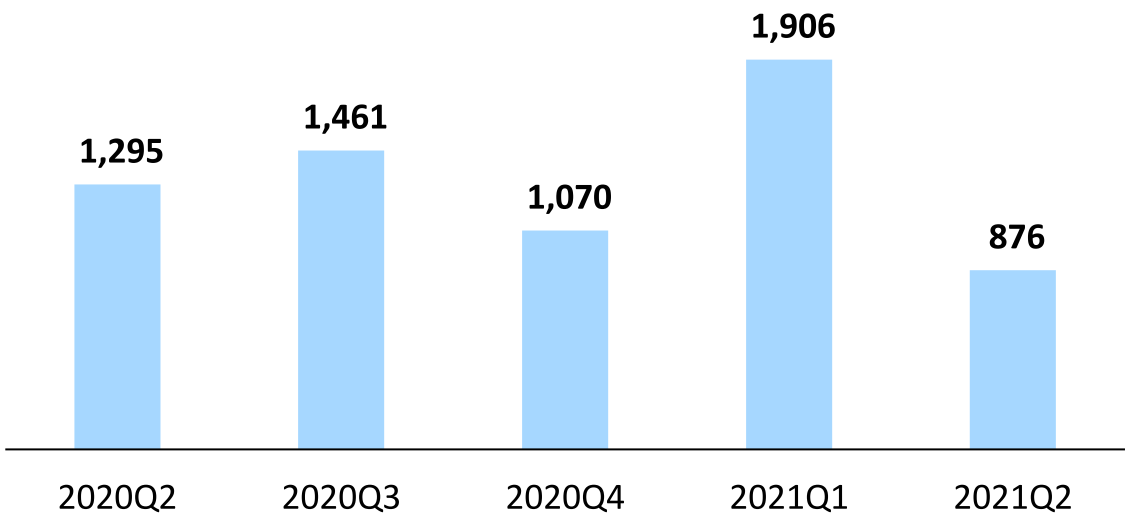


- The Naira depreciated on the Investors and Exporters (I&E) Window by 4.1% to N410/US$ in 2021Q1 from N394/US$ in the previous quarter.
- In May, the CBN adopted the I&E Window rate as the official exchange rate. As a result, the performance of the Naira on the I&E Window showed some stability. However, reserves continued to decline.
- As at December 20, exchange rate on the I&E Window stood at N414.80/US$. This represents a 5.32% depreciation in 2021 (ytd).
- Improving reserves condition following the huge external inflows from borrowings will stabilize rates in the short term. However, higher importation of goods and foreign exchange demand to finance services will continue to add pressure on reserves.
- In addition, lower investment inflows following a challenged business environment could trigger a depreciation in exchange rate in 2022.

Data Source: FMDQ & Central Bank of Nigeria, internet sources

Investment terrain remained tough in 2021 following insecurity and difficult business climate

Nigeria's Total Foreign Investment Inflows (US$ billion)

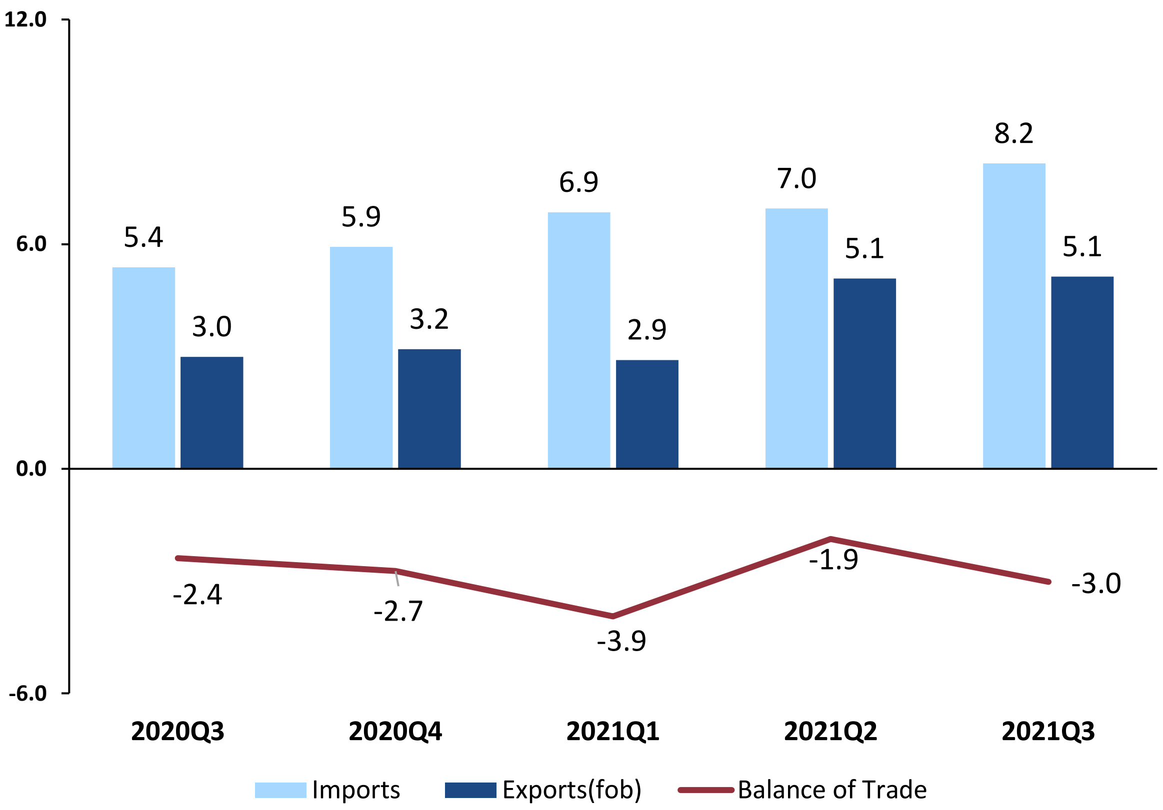


- Nigeria's investment inflows fell significantly in the second quarter of 2021.
- In 2021Q2, investment inflows declined by 54% to US$875.6 million from US$1.9 billion in the first quarter.
- Even at the height of the pandemic in 2020Q2, investment inflows (US$1.29 billion) was much higher than what was recorded in 2021Q2.
- In the first half of 2021, total investment inflows into Nigeria was US$2.78 billion, far lower than US$7.15 billion in 2020H1.
- Inflows declined across all categories – FDI, FPI and Other Investments – mainly due to heightened insecurity and foreign exchange restrictions.

Data Source: National Bureau of Statistics

Trade deficit widened in 2021Q3, N8.84 trillion deficit was recorded from Jan – Sept.

Nigeria's Trade Statistics (N'Trilion)



- Nigeria's trade situation remains unfavourable, recording a deficit for eight consecutive quarters. Trade deficit widened to N3 trillion in the third quarter of 2021, despite the recovery in the economy and sustained increase in oil prices.
- The persistent increase in import and a stagnant export drove the widened trade deficit in the quarter. Mineral fuel, chemicals & related products drove imports, reflecting the increase oil prices.
- Exports on the other hand increased to N5.1 trillion in Q3 driven mainly by higher value of non-oil exports, although oil and oil related products accounted for 89% of total exports in Q3.
- Cumulatively in 2021, trade deficit stood at N8.84 trillion, much higher than the N7.4 trillion recorded in full year 2020.

Data Source: National Bureau of Statistics

Analyst Views: Outlook on GDP Growth, Inflation, Investment and Trade

GDP Growth

- The Nigerian economy recovered from the COVID-19-induced recession with a positive growth of 0.5%, 5% and 4% in the first, second and third quarters of 2021, respectively.
- This implies that growth in full year 2021 will be higher than the pre-COVID-19 era (2019: 2.3%), suggesting a strong recovery in the year.
- In 2022, we anticipate that GDP growth will be marginally lower than that of 2021 following the high level of uncertainty as the general election approaches, coupled with insecurity challenges.
- In addition, the base effect will influence GDP growth, particularly in 2022Q2 and Q3. Year-on-year growth for both quarters will be lower and this will influence overall growth for the year. ***For 2022, we expect a GDP growth of 2.6% in our moderate case scenario.***
- The Services sector will continue to drive GDP growth in 2022 following improved demand as the economy continues to recover. While crude oil output is expected to improve marginally as OPEC relaxes production cuts, agriculture will face challenges, perhaps, until insecurity is addressed.
- In general, factors that will influence growth in 2022 include the potential oil subsidy removal, implementation of the Petroleum Industry Act, government spending and the trajectory of the Omicron variant.

Inflation, Investment and Trade

- Nigeria's inflation rate has maintained a downward trend since March 2021, and it is expected to continue this trend going into 2022. This will be supported by improved economic growth and exchange rate stability in the first half of the year. Inflation rate would remain elevated in 2022, above the CBN's upper band of 9%. ***In our moderate case scenario, we expect inflation rate to average 14.7% in 2022.***
- To address the problem of rising prices, the government will need to address key structural issues of infrastructure deficit, insecurity, transport costs and exchange rate depreciation.
- For Investment and Trade, the state of doing business, foreign exchange policies as well as implementing structural reforms will influence key outcomes in 2022.
- Implementing reforms to improve competitiveness, fixing the insecurity challenges and making foreign exchange available to businesses will boost output, enhance investment into key sectors and improve trade.
- Unless these reforms are implemented, investment inflows will remain subdued in 2022, while trade will continue to be in deficit, with a much wider gap between the value of imports and exports.

Analyst Views: Outlook on External Reserves and Exchange Rate

External Reserves and Exchange Rate

- Nigeria's Naira/US$ exchange rate was relatively stable in the second half of 2021. The issuance of the Eurobond and drawings from the SDR in late 2021 improved external reserves position in late Q3, thereby resulting in stable rates in the I&E window. But external reserves have since been under pressure following limited investment inflows and high dollar demand to finance goods import and services.

- For instance, external reserves which peaked at US$41.8 billion on October 29, 2021 have fallen consistently to US$40.7 billion on December 17. This represents a decline of 2.8% during the period. Going into 2022, this trend of declining reserves is expected to continue.

- Pre-election periods in Nigeria are often associated with heightened uncertainty. In view of this, as well as the insecurity situation, we believe that investors will be cautious and Nigeria could experience limited foreign exchange inflows during this period.

- On the demand side, imports will continue to trend upwards, likewise the demand for foreign exchange to finance services – school fees, medical tourism, etc. A combination of these factors will exert pressures on external reserves and exchange rate in the second half of 2022, causing a depreciation.

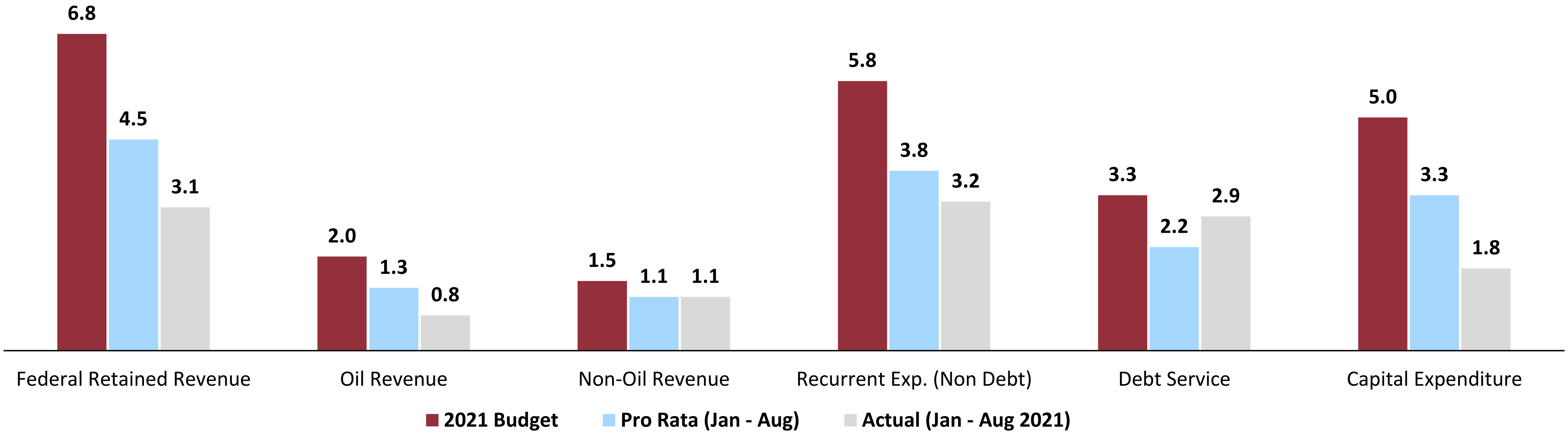
- The extent of depreciation, will however, be determined by inflow from the sale of crude oil, which is influenced by crude oil price and output. In our moderate case scenario where we assumed an average oil price of US$55 pb and a production of 1.6 million barrels per day for Nigeria, ***we estimate that the Naira will settle at 430 per US$ towards the end of 2022.***

Fiscal and Monetary Update

Budget Performance: Revenue shortfalls and high debt service to revenue persist

- Challenges with oil production resulted in an underperformance of oil revenue in 2021. As at August 2021, oil revenue was 38.5% short short of its pro-rata figure.
- During the same period, debt servicing, however, exceeded its pro rata figure by 32%. Debt servicing to aggregate federal government revenue ratio was 73.7% as at August. This share is expected to increase in the remaining months of the year, following revenue challenges.
- As at August 2021, N1.8 trillion (instead of N3.3 trillion) had been spent on capital projects.

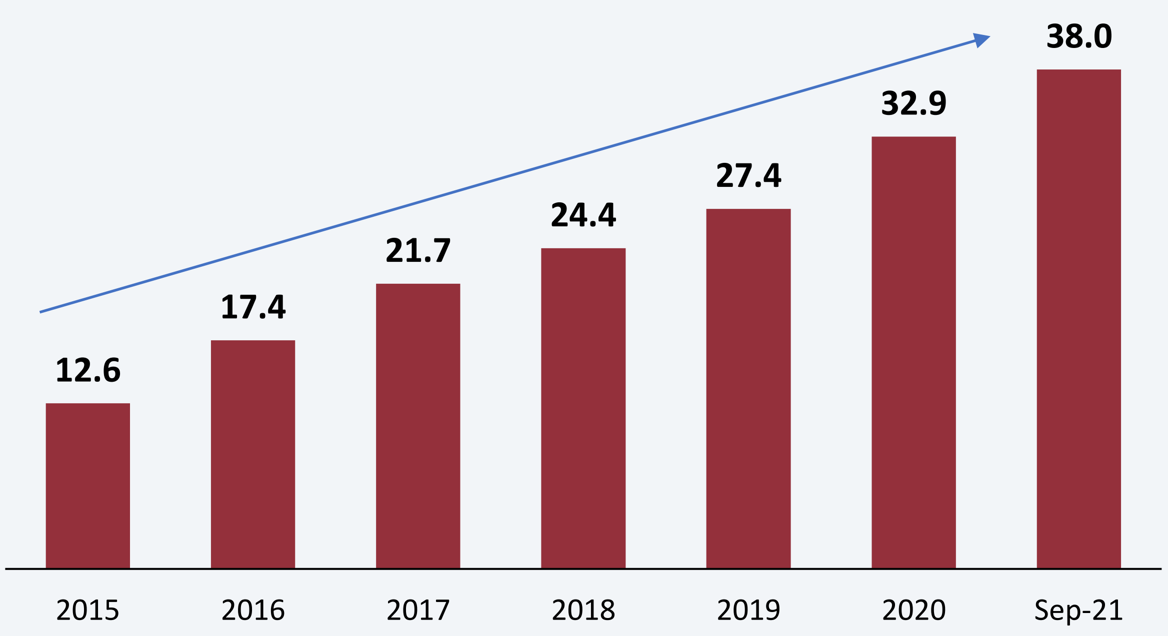
2021 Budget Performance (N'Trillion)



Data Source: Ministry of Finance, Budget and National Planning

Public Debt expanded to N38 trillion as at September 2021

Nigeria's total Public Debt Stock (Trillion Naira)



- So far in 2021 (Jan to Sept), Nigeria has added a net of N5.1 trillion to its public debt stock. N5.5 trillion was added to the debt stock in FY2020.
- Poor revenue means a larger fiscal deficit, which are being financed by borrowing. Public debt will continue to rise in 2022 following a fiscal deficit of N6.3 trillion in the 2022 proposed budget.

Breakdown of Public Debt as at September 2021

	Value (N'Billion)		Share of Total Debt (%)
Domestic Debt		**22,431.6**	**59.0%**
FGN Bonds	*13,463.3*		*35.4%*
NT Bills	*3,493.2*		*9.2%*
NT Bonds	*76.0*		*0.2%*
FGN Savings Bond	*16.8*		*0.0%*
FGN Sukuk	*362.6*		*1.0%*
Green Bond	*25.7*		*0.1%*
Promissory Notes	*795.3*		*2.1%*
State Government Debt	*4,198.8*		*11.0%*
External Debt		**15,573.0**	**41.0%**
Multilateral	*7,501.5*		*19.7%*
Bilateral	*1,804.9*		*4.7%*
Commercial	*6,019.0*		*15.8%*
Promissory Notes	*247.6*		*0.7%*
Total Debt		**38,004.6**	

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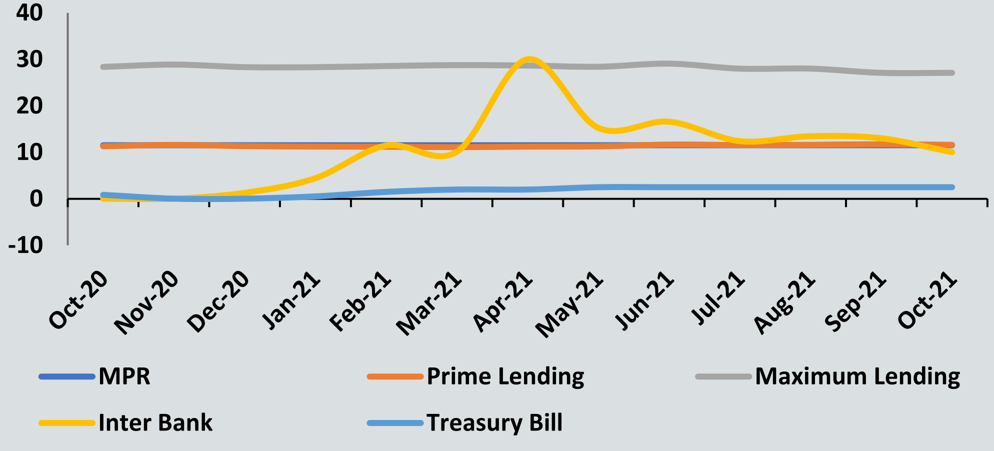
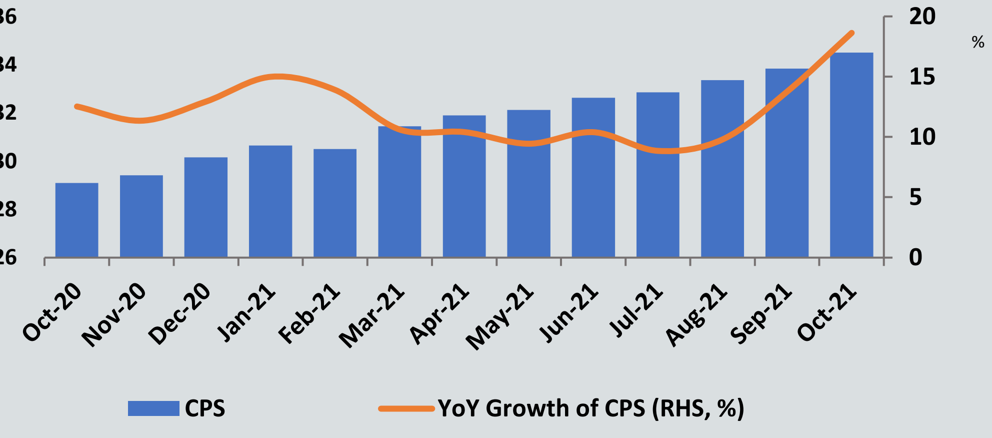
Data Source: Debt Management Office

Monetary Policy: Key Charts

Lending Rate (%)



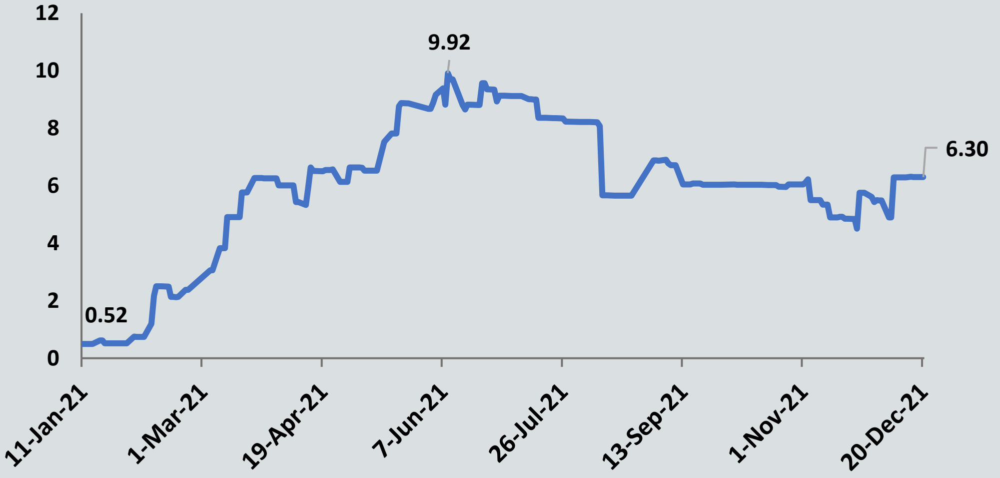
Credit to Private Sector (N'Trillion)



Financial Deepening Indicators (%)

	Jan-21	Mar-21	Jun-21	Sep-21	Oct-21
Currency/M2	7.5	7.35	7.07	7.07	7.17
Currency/GDP	1.86	1.84	1.80	1.80	1.95
M2/GDP	24.78	25.09	25.45	25.45	27.16
CPS/GDP	20.12	20.64	21.43	21.43	22.66
Stock Market Capitalization/GDP	15.38	14.17	12.97	12.97	14.40

CBN Special Bill Yield (%)



Data Source: Central Bank of Nigeria

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Monetary Policy: MPC retained key Monetary Parameters in 2021

The CBN Monetary Policy Committee (MPC) held six meetings in 2021 and the Committee maintained its policy stance for seven consecutive meetings. In all the meetings, the MPC decided to:

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

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

- The need to support economic recovery
- Inflationary pressure
- State of credit to the private sector
- Inflow of foreign exchange
- Negative real interest rate
- Non-performing loans
- Security challenges and infrastructural deficit.

Outlook and expectations

- The Nigerian economy is on the recovery path, especially following the improved GDP numbers. Inflation rate has also trended downwards since April 2021.
- The Monetary Policy Committee (MPC), earlier in 2021, noted that the drivers of inflation in Nigeria are non-monetary factors and thus, the fiscal authorities need to intensify efforts to address the structural issues such as infrastructural deficit, security challenges, high transport cost among others.
- With this in mind, we believe that the MPC, in a bid to sustain economic recovery, will continue to favour economic growth over inflation targeting by further expanding credit to the private sector.
- The emergence of the Omicron variant and its discovery in Nigeria will adversely impact investors' confidence following the implementation of travel bans by other countries. This will affect foreign investment inflows and could motivate the MPC to maintain a higher MPR in 2022 in order to attract investment into Nigeria.
- In view of the fact that higher MPR could hurt growth, we anticipate the retention of key parameters in the first half of 2022.

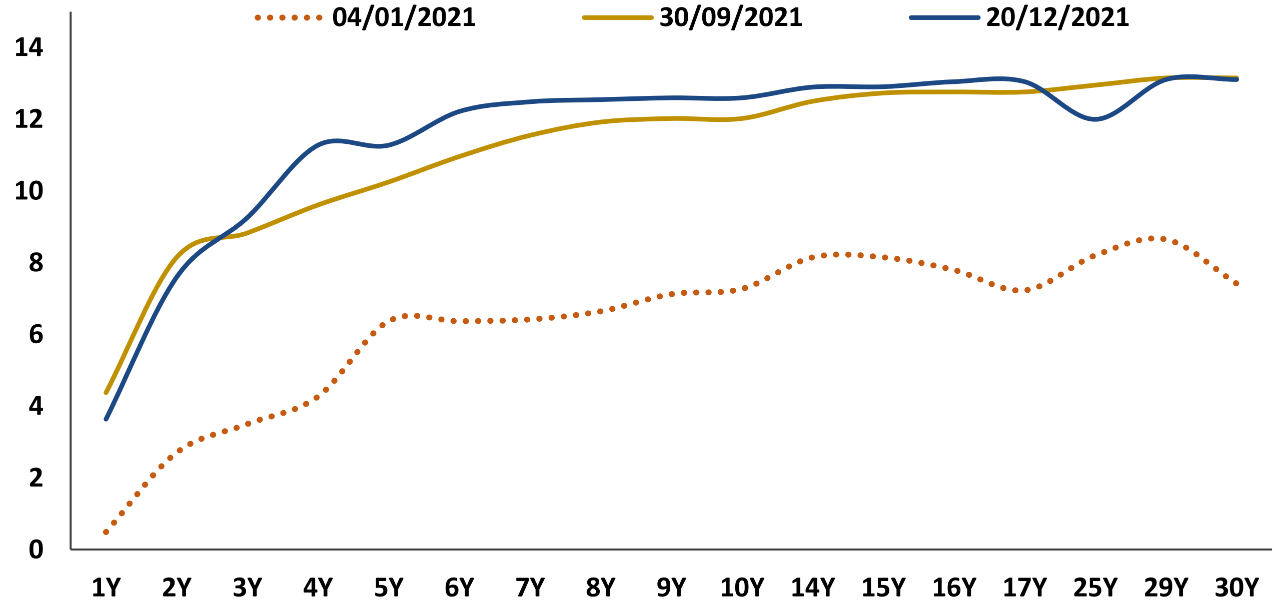
Market Performance

Yields appreciated in 2021 as the CBN's 2019 OMO policy fades out

Average Yields in FGN Bond Market

6.29%	11.2%	11.55%
(04/01/2021)	(30/09/2021)	(20/12/2021)

FGN Bond Yield Curves



Data Source: FMDQ

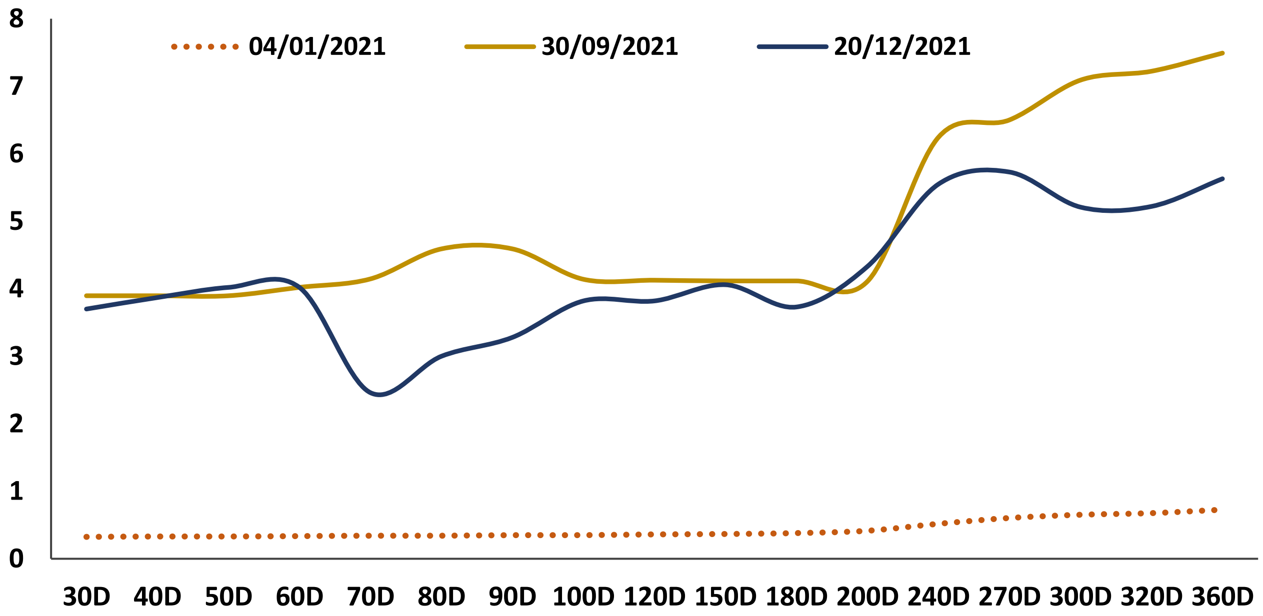
- Yields in Nigeria's fixed income market accelerated in 2021 as the impact of the CBN's OMO regulation restricting non-bank corporates from OMO deals and COVID-19 induced shocks faded. However, there was a douse in momentum in 2021Q4.
- The average yield in the FGN Bond market almost doubled in 2021. The average yield increased from 6.29% on the first trading day of the year to 11.55% on December 20, 2021.
- On a quarterly basis, the average yield on the FGN Bond market inched up by 35 basis points to 11.55% on December 20, from 11.20% at the end of the third quarter.
- The increase in yields in the FGN Bond market is driven by CBN's numerous strategies to stabilise the market, which include:
  - Introduction of the CBN Special Bill in late 2020;
  - Week on week OMO Auctions;
  - Direct debit on banks' cash balance;
  - Expanded government's debt programme for the year and the need to incentivise investors.

NT-Bill yields advanced in the year, however, subsided in 2021Q4

Average Yields in Nigerian Treasury Bill Market

0.46%	5.29%	4.48%
(04/01/2021)	(30/09/2021)	(20/12/2021)

NT Bill Yield Curves (%)



Data Source: FMDQ

- Also, in the Treasury Bill market, yields expanded following the fading out of the CBN's OMO policy. However, it inched downward in 2021Q4.
- The average yield in the Treasury Bill market stood at 4.48% as at December 20, a 402 basis point expansion from 0.46% that ended 2020.
- However, the average yield in the Treasury Bill market dipped by 81 basis points to 4.48% as at December 20 from 5.29% at the end of the third quarter of 2021.
- The increase in NT-Bill yields, especially in the first half of the year, was an aftermath of the CBN's liquidity management efforts in introducing the CBN Special Bill, government debt programs, OMO Auctions and intermittent debit on banks' cash balance.
- However, the decline witnessed in NT-Bill yields in the second half of the year was motivated by the bulge in liquidity in the third and fourth quarters following some maturities from various fixed-income markets.

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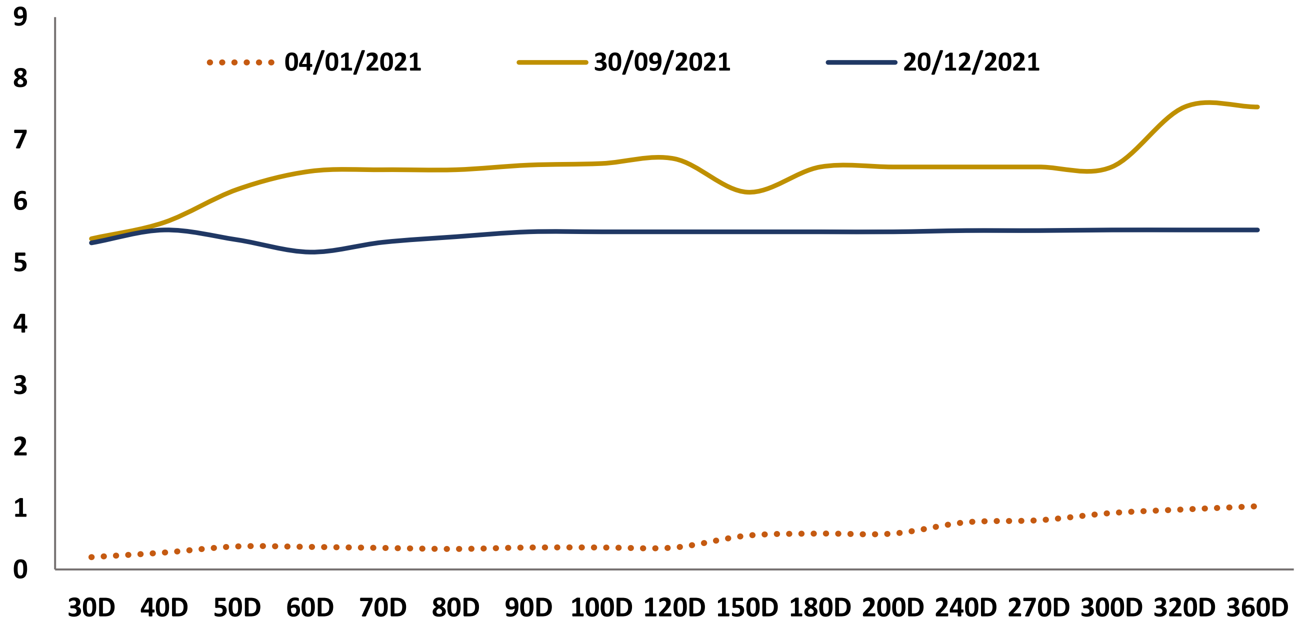
Similarly, yields in OMO market advanced to full year but dipped in 2021Q4

Average Yields in CBN OMO Market (%)

0.57%	6.32%	5.45%
(04/01/2021)	(30/09/2021)	(20/12/2021)

CBN OMO Yield Curves (%)



Data Source: FMDQ

- In line with the NT-Bill, yields in the OMO market expanded in the year, with the impact of the CBN policy on market participants fading out.
- The average yield in the OMO market stood at 5.45% on December 20, 2021, a 488 basis point increase from 0.57% that opened the year's trading.
- The increase in OMO yields early in the year was due to the CBN's liquidity management measures (special bill, OMO Auctions and intermittent debit on banks' balance) as well as government debt programs
- The eventual decline towards the end of the year was as a result of increased liquidity that came with maturities in the fixed income & money markets in 2021H2.
- This also followed the drastic reduction in the number of OMO Auctions in 2021H2 relative to 2021H1 to keep the cost of borrowing low.

Equity market continues to reap from liquidity bulge and declining yields

Equity Market Indicators

NGX-ASI	2021-FY*	2021-H2*	2021-Q4*
Open (N'Bn)	40,270.72	37,907.28	40,221.17
Close (N'Bn)	42,394.71	42,394.71	42,394.71
% Change	5.27	11.84	5.40
MARKET CAP	**2021-FY***	**2021-H2***	**2021-Q4***
Open (N'Bn)	21,056.76	19,756.31	20,955.50
Close (N'Bn)	22,128.90	22,128.90	22,128.90
% Change	5.09	12.01	5.60

SECTOR PERFORMANCE	2021-FY*	2021-H2*	2021-Q4*
NSE ASI	5.27	11.84	5.40
NSE 30	4.08	7.03	1.94
Banking	0.89	8.21	6.93
Insurance	0.27	-6.78	9.81
Industrial	1.72	10.58	-0.09
Oil & Gas	54.38	11.54	-4.92
Cons. Goods	-3.97	-8.37	-2.93

Source: Nigerian Exchange * Ends at December 20, 2021

- Nigerian equity market closed the year positively, reaping from liquidity bulge and declining yields. However, it exhibited opposing trajectories in the year's two halves: loss in H1 and gained in H2.

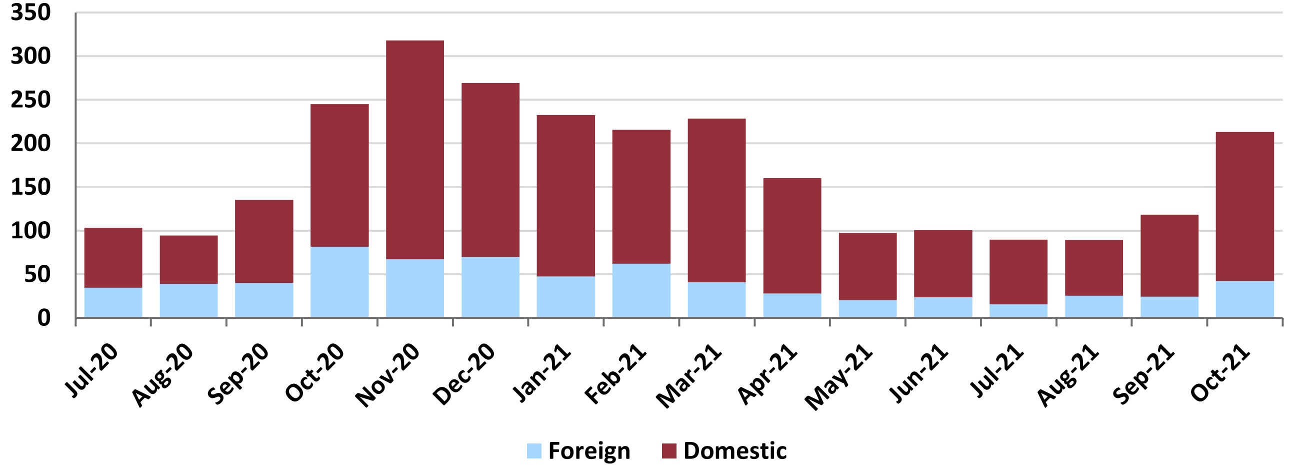
- The NGX-ASI recorded a gain of 5.27%, increasing from 40,270.72 index in January to 42,394.71 as at December 20, 2021. This is an upside; however, substantially lower compared with the 50.03% gain recorded in 2020 - the peak year of COVID-19.

- Hence, investors' assets expanded by N1.07 trillion (5.09%) as the Market Capitalization increased to N22.13 trillion from N21.06 trillion on the first trading day of the year.

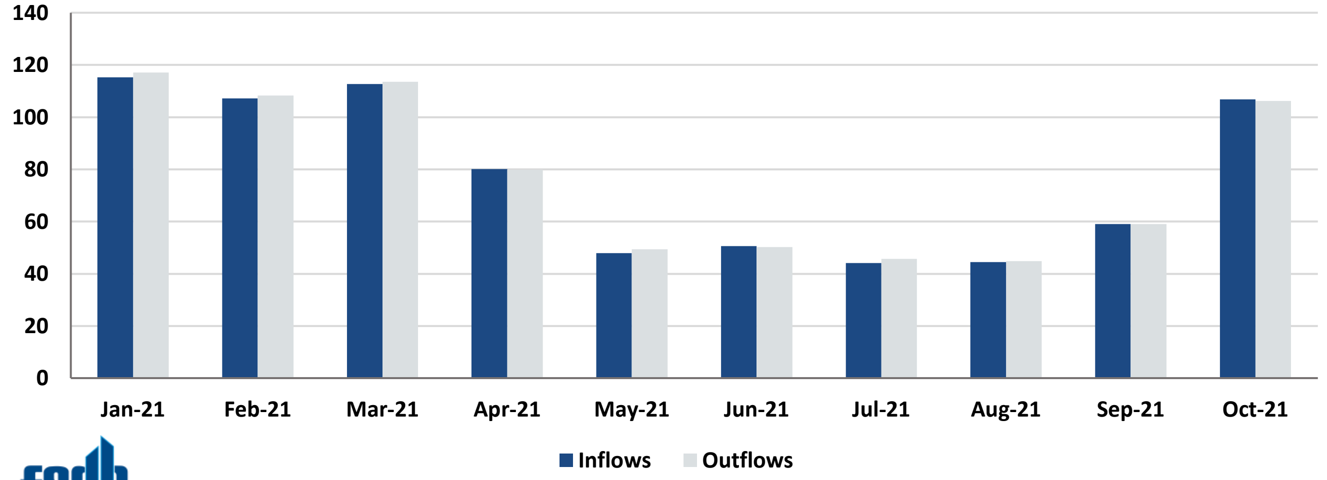
- The gain on the Exchange in the year was driven by 54.38% and 1.72% gains in large-cap stocks in Oil & Gas and Industrial indices, respectively. Besides, the Banking and Insurance indices recorded gains of 0.89% and 0.27%, respectively. However, the Consumer Goods index lost by 3.97%.

Market participation expanded as the upside in the equity market gains momentum

NGX Domestic & Foreign Participation (N' Billion)



NGX Investment Flows (N' Billion)



Source: Nigerian Exchange

- Investors' participation in the equity market picked up pace in September and November 2021; however, still lower compared with the previous year.
- Market participation over the first ten months of 2021 amounts to N1.54 trillion, representing a 2.29% contraction from N1.58 trillion in the corresponding period of 2020.
- The reported figure for October 2021 at N213.07 billion, though increased from N118.15 billion in September 2021, it contracted by 13% from N244.9 billion in October 2020.
- Though foreign participation is picking up (their apathy towards Nigeria's equity market remains), it is significantly lower than domestic participation. Foreign participation over the first ten months of the year declined by 44.32% to N329.62
- Domestic investors continue to dominate the equity market with a participation share of 78.66% and increase by 22.86% to N1.22 trillion.
- Both domestic and foreign investors relatively balance the inflows and outflows from the equity market.

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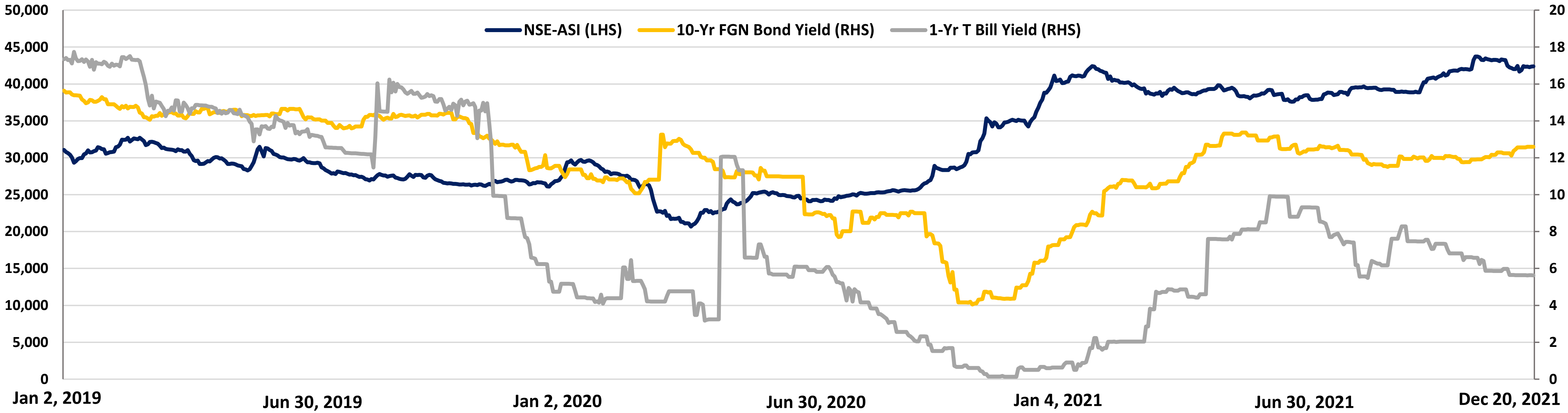
Equity vs Bond Market Trade Off – Both markets switch trajectories over the two halves of 2021

NGX-ASI Compared with 10-Year FGN Bond Yield (%) and 1-Year T-Bill Yield (%)



- The equity and fixed income markets exhibited divergent trajectories over the two halves of the year as they both switched grounds in 2021. Hence, the two markets continue to exhibit trade-offs in performance.
- In the first half of the year, yields on 10 Year FGN Bond and 364 Day NT-Bill increased from 7% and 0.6% in January to 13.2% and 8.8% in June, respectively. This is associated with 5.87% loss on the NGX-ASI over the same period.
- The yields on the 10 Year FGN Bond and 364 Day NT-Bill fell to 12.1% and 5.6%, respectively as at December 20. This is associated with an 11.24% upside in the equity market.
- The two markets continue to be driven by liquidity movements - as liquidity expands on the back of maturities from NT-Bills, OMO and FGN Bond, demand for government securities increase. This leads to higher prices and declining yields, thus diverting investors to the equity market (and vice versa).

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Source: Nigerian Exchange/investing.com

Capital Market: Analyst View – Outlook and Expectations

Fixed Income Market

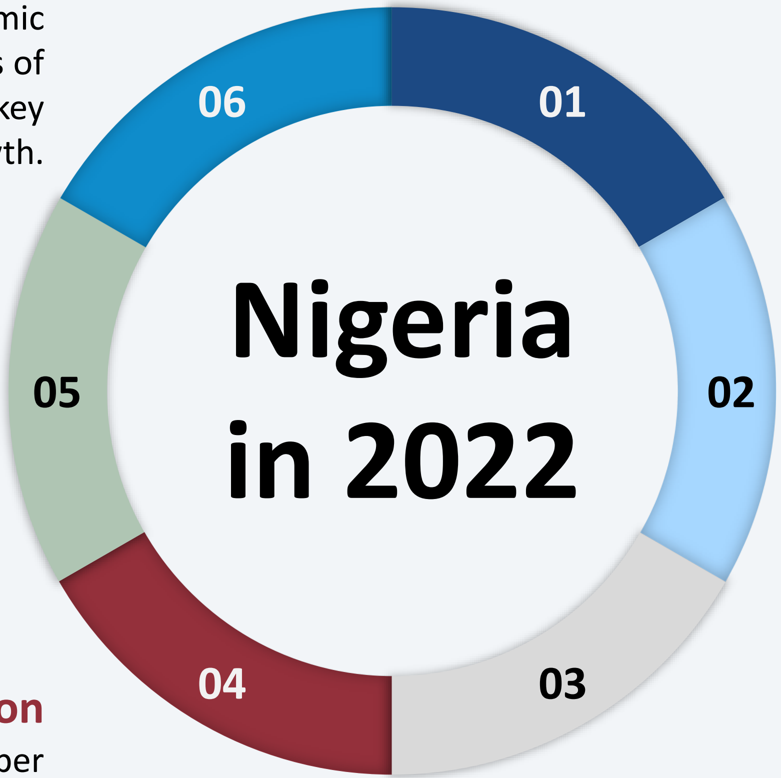
- System liquidity continues to be a major driver of the fixed income market. Besides, maturities from the fixed income market constitute a major component that drive up liquidity.
- Going into 2022Q1, the system expects N2.24 trillion in maturities of FGN Bond, Treasury Bills and OMO, which will bolster the liquidity level. This would continue to pressure the yields in the various markets downwards.
- In the 2022 appropriation bill, the government is positioned to borrow N2.51 trillion (50% of the total market-related borrowing in the budget) from the domestic capital market. In a bid to incentivize investors, the government could hold yields across markets higher.
- The election year comes with lots of market uncertainty. In addition, there will be a new administration as the tenure of President Buhari comes to an end. This means that investors would be cautious of long term assets and would therefore take more short position. This would drive downward pressure in the Treasury Bills market.

Equity Market

- The equity market continues to ride on the boost in liquidity in the system and associated decline in yields. This sufficiently placed the equity market on a gaining side in 2021.
- Going into 2022, we anticipate a further liquidity boost in 2022Q1 due to more maturities coming in from segments of the fixed income market. Hence, the equity market will continue on its positive glide.
- The equity market in 2021 rode on the appreciation of the Oil & Gas Index on the back of the sustained increase in oil prices. The short-term outlook for the global oil market is challenged with the spread of the COVID-19 Omicron variant. This is expected to negatively impact the performance of Oil & Gas segment of the NGX.
- At the firm level, many large-cap companies listed on the exchange are reporting record performance in their 2021-9M reports, which will spill into their full-year performance and eventual dividend payment. Hence, it will drive positive sentiment towards the equity market in 2022.

The Nigerian Economy: Outlook for 2022

Factors that will influence economic outcomes in Nigeria in 2022



01. Nigeria's 2023 General Elections

2022 is a pre-election year. Given this, government spending is expected to rise while activities will increase in areas such as advertising, printing, media, among others. This could result in higher inflation in the year.

02. Movement of Oil Prices

The Omicron variant will influence the trajectory of oil prices in 2022. As at December 17, brent crude oil price fell to US$73.5 pb. Lower than expected price will affect Nigeria's fiscal position in 2022.

03. Uncertainty due to COVID-19

The reaction of countries to the discovery of the new COVID-19 variant – Omicron – could slow down global recovery in 2022. Restriction of travel from Nigeria will negatively affect sectors such as aviation, tourism, hospitality, trade, etc.

04. 2022 Budget Implementation

Presentation of the 2022 proposed budget in October 2021 suggests that the budget will be passed on time. Early passage and planned capital spending will influence activities in sectors such as construction, manufacturing, etc.

05. Subsidy Removal Debate

The federal government plans to end fuel subsidies in 2022. If implemented, this could address inefficiencies in the oil sector but will also result in higher inflation. The move could trigger protests and unrests among citizens.

06. State of Insecurity

Insecurity is a major determinant of economic outcomes in Nigeria. Persistent challenges of insecurity in 2022 will deter investment in key sectors and constrain growth.

Key Priorities and Policy Actions for the Nigerian Government in 2022

Macroeconomic Stability

- Ensure clarity of foreign exchange policies, clear backlogs and allow for a market reflective exchange rate.
- Address supply chain bottlenecks – complex processes at ports and interstate transport levies on goods – to tame the pace of price increase.
- Provide fiscal support for businesses in sectors that are affected by the pandemic– aviation, hotel & hospitality, education – to boost growth.
- Incentivise production for exports to boost external reserves accretion.
- Implement cash support for vulnerable citizens affected by higher prices.

Fiscal Sustainability

- Conduct comprehensive review of the proposed 2022 budget to remove unwarranted items and channel saved resources appropriately.
- Privatise dead capital/assets to mobilise revenue in 2022.
- Sanitise the petroleum industry by removing subsidy in phases and deregulating petroleum imports.
- Harmonize government taxes, encourage compliance and block leakages.
- Ensure transparency and accountability in the use of public resources.
- Re-assess the implication of rising fiscal deficit and public debt sustainability on macroeconomic stability.

Insecurity

- Acquire relevant materials and equipment needed by security agencies to tackle insurgency.
- Implement police reforms to improve effectiveness.
- Implement welfare reforms for security agencies – pensions, benefits, living conditions and general welfare reforms.
- Ensure recruitment of more security officials; ensure they are properly trained and well-equipped.
- Transparency and accountability of security-related funds are important.

Ease of Doing Business

- Embark on a massive campaign to improve non-oil export, leveraging on the African Continental Free Trade Area (AfCFTA) agreement.
- Ensure infrastructure development leveraging on private capital.
- Support local production of strategic products/mineral deposits across the country.
- Institutionalize the policymaking process and ensure strict compliance by government officials to reduce policy inconsistency.
- Intensify ports reforms to simplify processes and reduce inefficiencies.
- Ensure constant stakeholder engagements in the designing and implementation of policies that affect businesses.
- Implement the Petroleum Industry Act.

Macroeconomic Projection for 2022

Macroeconomic Projection for 2022: Rationale for the Three Scenarios

Best Case

This scenario assumes that the impact of the Omicron variant on the oil market is mild. Only few countries implement lockdown and countries adjust swiftly and relax restrictions. As such, demand for crude oil remains stable in the year as OPEC+ members continue to boost supply gradually. Given these, oil price rises above US$70 per barrel and Nigeria produces 1.9 million barrels per day. Higher oil and non-oil revenue leads to an increase in both foreign inflows and capital spending (at N2.5 trillion) in 2022.

Moderate Case

In this scenario, crude oil price is expected to average US$55 per barrel, owing to lower than expected demand as a result of the Omicron variant. In a bid to maintain a high price, OPEC+ members revisit the decision to inject 400,000 barrels per day (bpd) into the oil market. As a result, Nigeria's oil production falls to 1.6 mbpd, below the 2022 budget assumption of 1.8mbpd. In addition, FGN spends N1.8 trillion on capital project, which is a budget implementation rate of ~40%, financed mainly by borrowing.

Worst Case

The Omicron variant triggers another intense wave of infection across countries and governments respond by implementing lockdowns and travel bans for most of 2022. Crude oil price falls below US$30 per barrel as a result, even as Nigeria's output falls to 1.2 mbpd. Travel bans and restrictions also affect sectors such as transportation, trade, food and accommodation, among others. Government revenue is severely challenged and spending on capital project falls to N700 billion in the year.

Macroeconomic Scenario for 2022

Scenario	Assumptions	Outcome
Best Case	• Oil price rises above US$70 per barrel • Demand for Nigerian crude improves as economies recover- Nigeria produces 1.9 million barrels per day • Government capital spending at N2.5 trillion • Full implementation of sectoral support interventions	• GDP Growth at 3.3% • Inflation Rate at 14% • External Reserves at US$40.2bn • Exchange Rate at N409/US$
Moderate Case	• Oil price averages US$55 per barrel • Crude oil production at 1.6 million barrels per day • Government capital spending at N1.8 trillion • Implementation of sectoral support interventions	• GDP Growth at 2.6% • Inflation Rate at 14.7% • External Reserves at US$37 billion • Average Exchange Rate at N430/US$
Worst Case	• Oil price below US$30 pb • Another wave of COVID-19 infections results in lockdown and restrictions which impact sectors in Nigeria. • Lower crude oil production- Nigeria produces 1.1 million barrels per day • Government capital spending at N650 billion	• GDP Growth at -0.3% • Inflation Rate at 16% • External Reserves at US$29 billion • Exchange Rate at N460/US$

Macroeconomic Projection for 2022

	2017	2018	2019	2020	2021e	2022f*
Real GDP Growth	0.8%	1.9%	2.3%	-1.9%	3.0%	2.6%
Inflation rate	16.5%	12.1%	11.4%	13.2%	16.9%	14.7%
Average Exchange rate (N/US$)	365.58	361.97	361.93	382.07	410.0	430
Investment as a % of GDP (nominal)	14.7%	19.0%	24.6%	28.6%	20%	22%
Monetary Policy Rate	14.0%	14.0%	13.5%	11.5%	11.5%	12%
External Reserves (Average, US$ Billion)	31.3	44.6	43.0	35.9	35.8	37.0

**2022f reflects our moderate case results. Please note that there is still a high degree of uncertainty around the forecast for 2022. Actual figures could exceed or fall below these forecasts. A lot depends on the path of COVID-19 and its variant, vaccine effectiveness, oil price movement and possible disruptions in the local economy.*

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