

MACROECONOMIC REVIEW AND OUTLOOK FOR NIGERIA

Russia-Ukraine Crisis: Global Uncertainty, Domestic Constraints threaten Nigeria's Economic Recovery

March 2022

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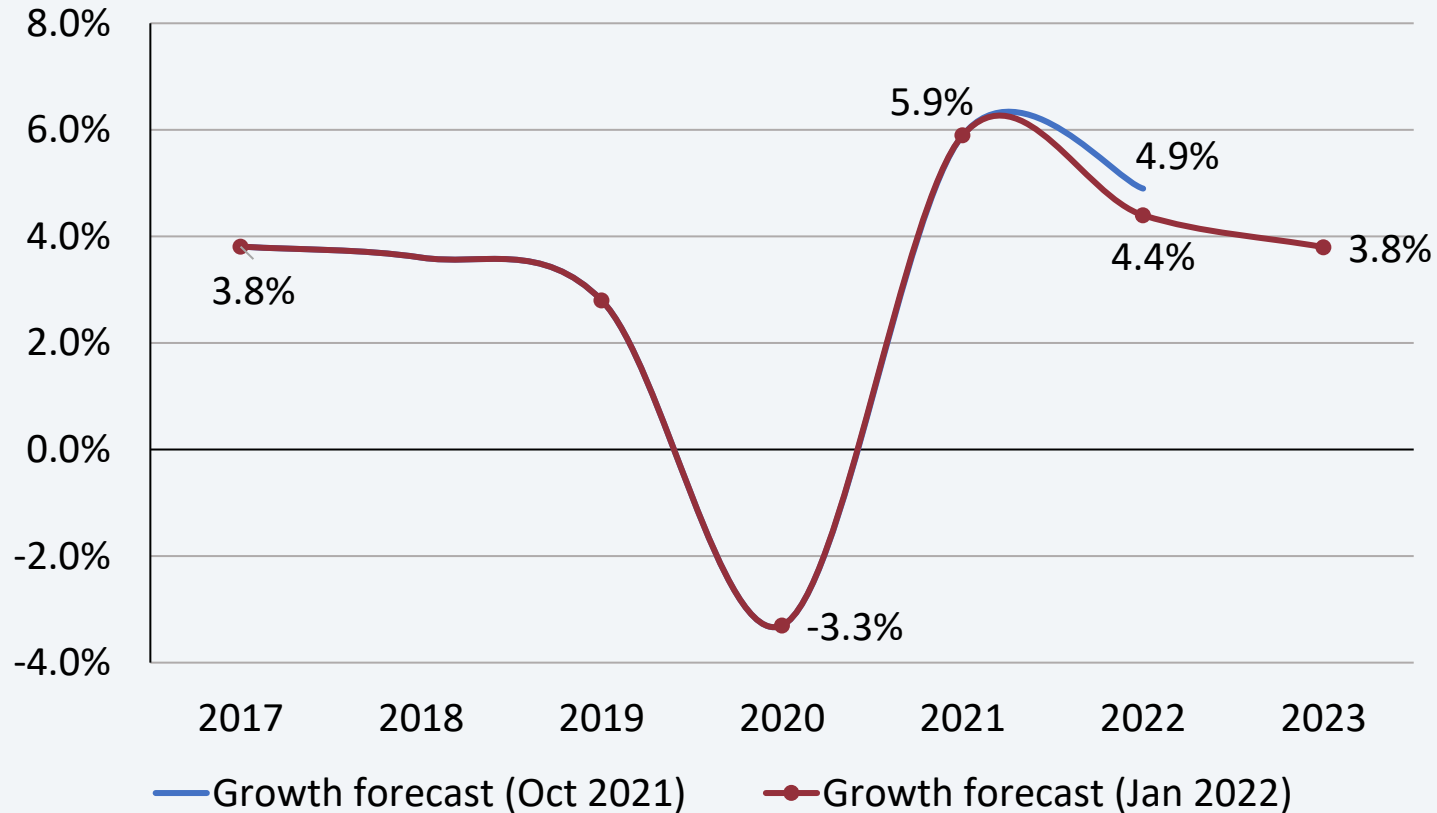
The Russia-Ukraine Crisis and the Global Economy

Russia-Ukraine crisis; Another headwind for the global economy?

- On Thursday, 24th of February, Russia's President, Vladimir Putin ordered a "Special Military Operation" in Ukraine, in what became day one of its sustained invasion of Ukraine. This invasion marks a new chapter in the countries' near-decade conflict after the annexation of Crimea in 2014 and conflict in the Donbas region of Ukraine (Donetsk & Luhansk).
- The reasons for Russia's invasion of Ukraine has been ascribed to different factors. However, top of the list is Russia's lack of comfort with the possibility of Ukraine being admitted into the North Atlantic Treaty Organisation (NATO), given the possibility of its military presence along the Russia-Ukraine border.
- However, political analysts have highlighted Putin's dream of a New Soviet, where he hopes to unite all breakout countries from the old Soviet Union, as the fuel behind his invasion of Ukraine. Regardless of the reason for the invasion, the crisis has had and will have more far-reaching consequences for the global economy as well as for the capital markets
- The invasion has been met with widespread condemnation from the west (the US, UK, EU and Canada) which has triggered stern sanctions aimed at impacting the Russian economy and oligarchs reportedly close to Putin's administration. On economic sanctions, activities of the Russian central bank has been restricted with severe impact on usage of international reserves as well as issued securities.
- In addition, strategic Russian banks have been cut-off the Swift international payments system with the view to prevent them from accessing the international financial system while several companies continue to suspend operations in Russia in condemnation of the invasion.

Global growth will taper in 2022 following the impact of the Russia-Ukraine Crisis

Global GDP Growth



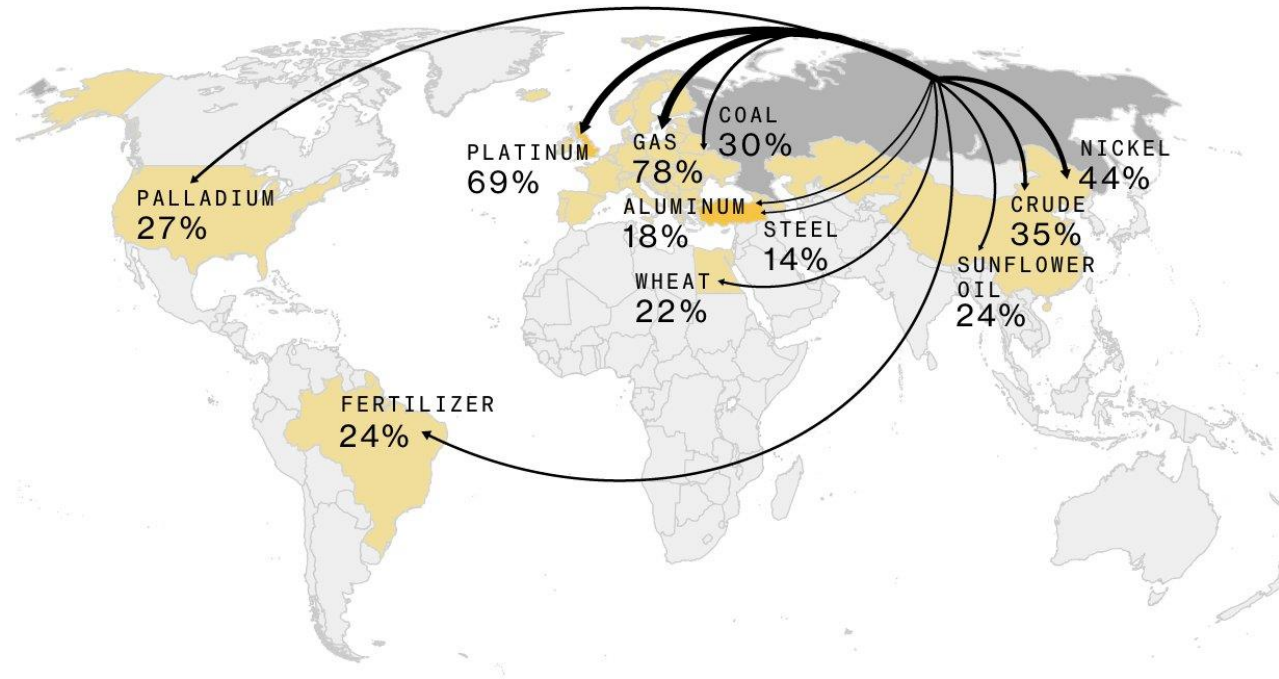
- Prior to the Russia-Ukraine Crisis, the IMF downgraded the projection for global GDP growth in its latest report released in January 2022. The IMF anticipated growth at 4.4% for 2022, down from 4.9% earlier projected.
- The downgrade was mainly as a result of the spread of the Omicron variant of COVID-19 which led a number of countries to impose restrictions.
- Rising energy prices and supply disruption were also highlighted as major risks to growth by the IMF.
- With the crisis in Ukraine, the risks facing global growth have been heightened.
- Energy prices have increased significantly while prices of some commodities have also increased, threatening food security and driving up inflation across several countries.
- Given these developments, global growth will be cut down. The OECD for instance estimated a growth of 3.4% in 2022 from 4.5% earlier forecasted.

Data Source: International Monetary Fund (IMF)

Russia's Invasion of Ukraine creates disruption in global Energy & Commodities Markets

Russia's Commodities Reach

The share of Russian exports that go to each destination



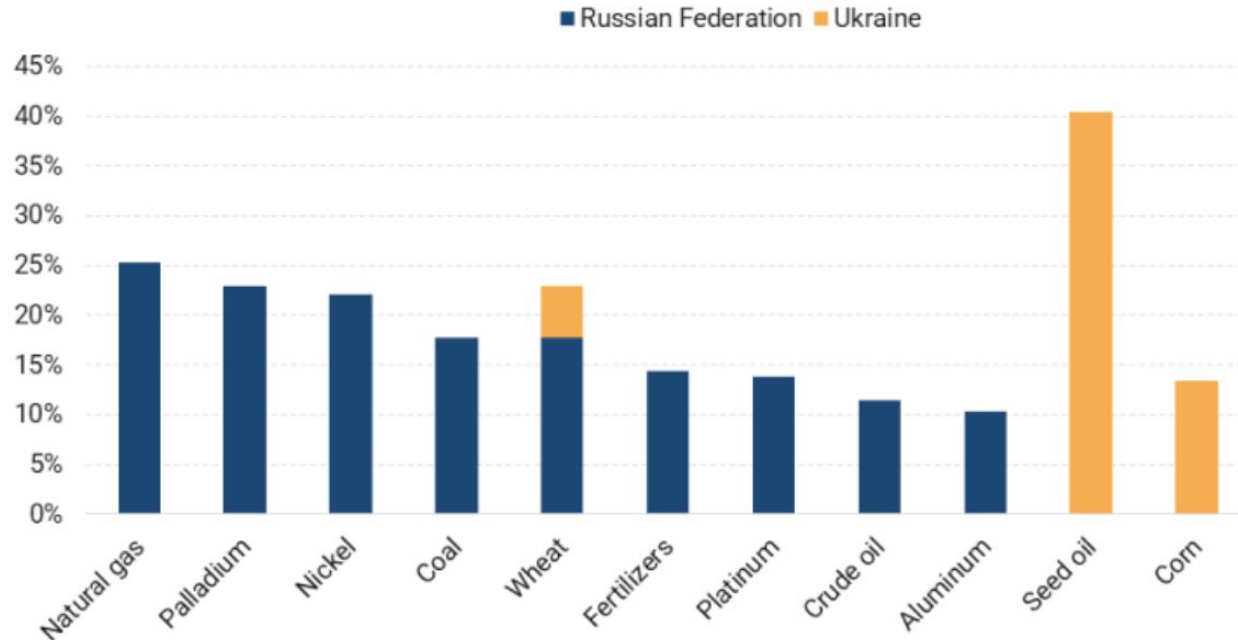
Note: Coal figures combine thermal and metallurgical; liquefied natural gas and pipeline gas are also combined.

Sources: UN Comtrade Database (metals); International Energy Agency (coal); UN's Food and Agriculture Organization (wheat; sunflower oil); Joint Organisations Data Initiative; Bloomberg; Eurostat; BP; (crude); Trade Data Monitor; Green Markets, a Bloomberg company (fertilizer); BP (gas)

- The Russia-Ukraine crisis constitutes a major disruption to global trade along with the associated humanitarian crisis.
- Russia is a major supplier of several commodities including wheat, fertilizer, crude oil, natural gas, etc.
- The sanctions placed on Russia by Western nations have continued to limit the supply of these commodities, driving up inflation rate in many countries across the world.
- Western Europe, which relies on gas supplies from Russia could face an energy crisis, which will translate into high cost of production, high inflation and a drop in real income.

Both countries produce a substantial share of several commodities

Ukraine and Russia's commodity exports as a percentage of global exports

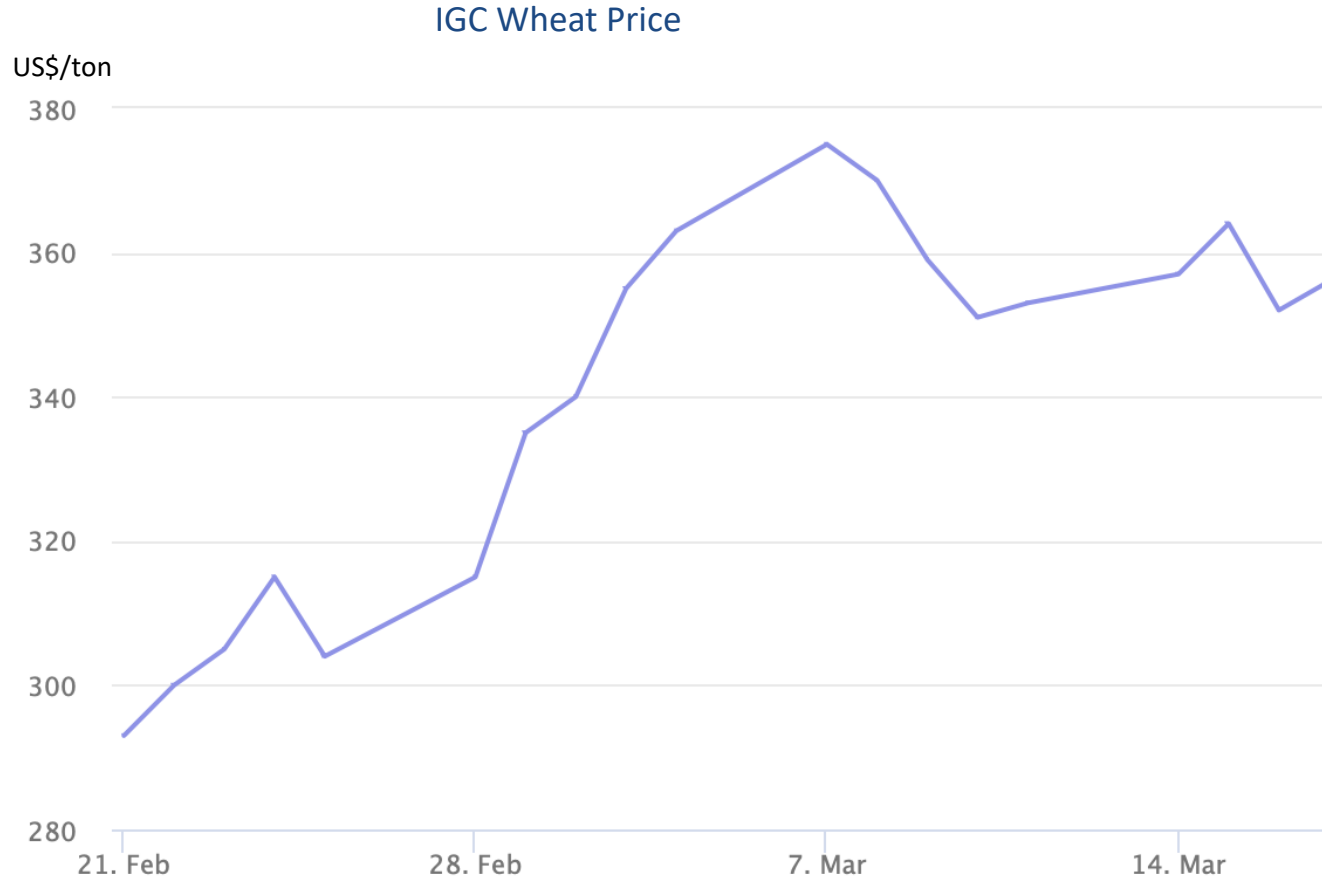


Source: Comtrade, World Bank.

BROOKINGS

- For specific commodities, data show that wheat is a major commodity produced by Russia and Ukraine.
- Both countries account for about 25% of global exports of the commodity. The OECD estimates the share at 30%.
- Ukraine is a major exporter of seed oil (40%) and corn (14%).
- Other products such as fertilizers, aluminum, platinum, palladium are affected as a result of the crisis, given the significant role of Russia in the production and export of these commodities.
- Users of these commodities such as farmers, manufacturers of cars, smartphone, and aircraft will experience higher production cost, which could dampen output in their respective sectors across several countries.

Wheat Prices surge due to supply shortage

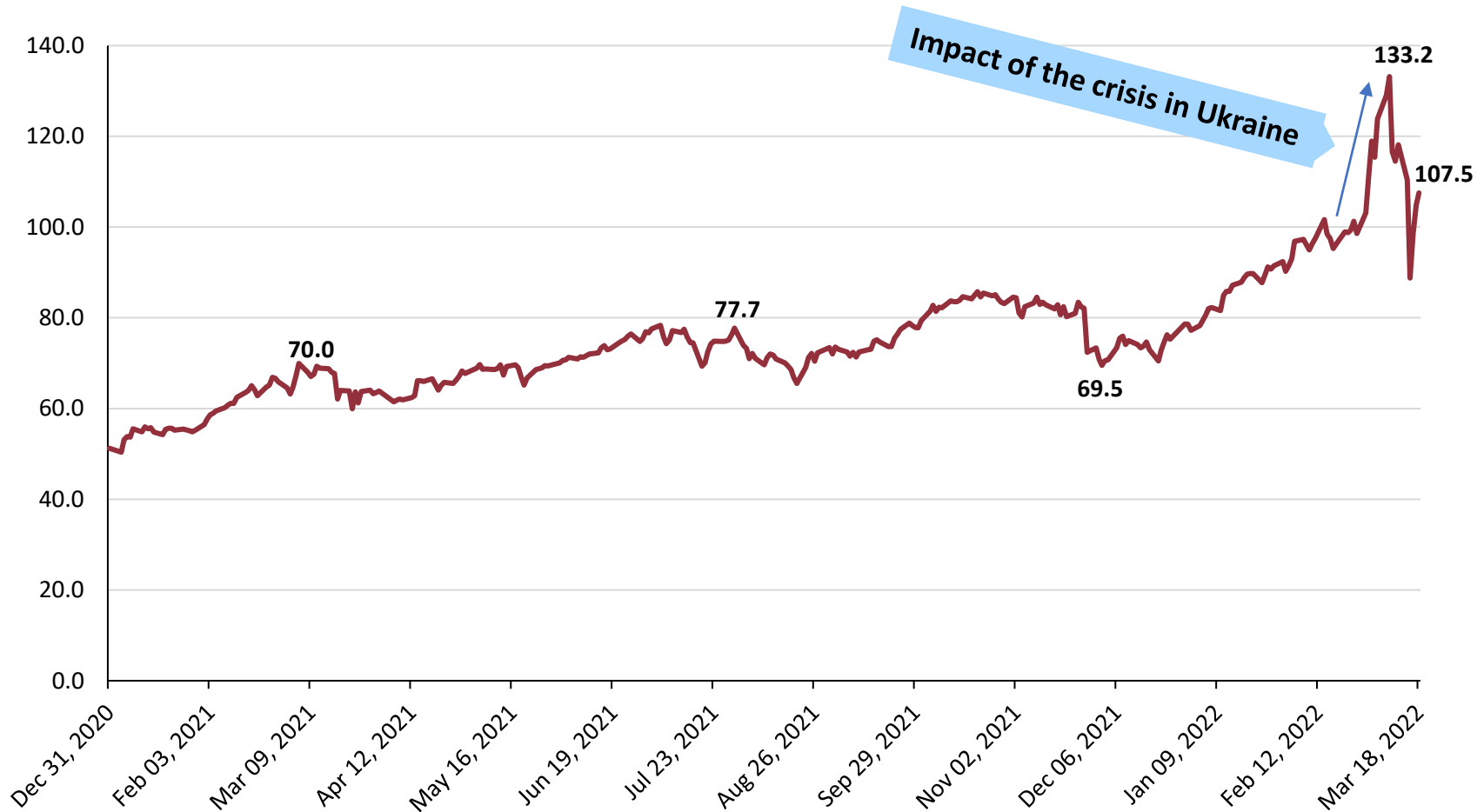


- In addition to crude oil, wheat is one of the most affected commodities since the invasion of Ukraine.
- Wheat prices have risen by 23% from US\$304/ton on Feb 25 to US\$375 on Mar 7, 2022.
- The price of benchmark US wheat futures surged 21.9% in February while appreciating 45.3% in March.
- This is expected to have grave concern of food security across many developing countries, especially if the crisis continues.

Data Source: International Grains Council

Crude Oil Price rose to US\$133.2 per barrel as a result of the Russia-Ukraine Crisis

Europe Brent Spot Price FOB (US Dollars Per Barrel)



Data Source: U.S. Energy Information Administration

- Oil price has trended upwards since the invasion of Ukraine.
- Oil price rose from US\$98.6 per barrel on February 25 to US\$133.2 per barrel on Mar 8, 2022. This is the highest price since 2008.
- As a result of the crisis in Ukraine, energy companies such as Shell, BP and Exxon withdrew from Russian energy deals. In addition, the United States President placed a ban on oil and other related products imports from Russia, which accounts for about 8% of U.S.-bound crude shipments.
- These factors, coupled with strong oil demand following the recovery from COVID-19 led to an increase in oil price.

Oil producers continue gradual increase in crude oil supply

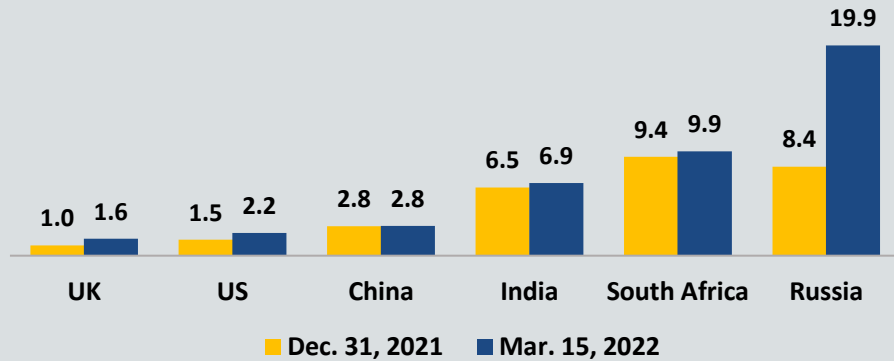
Voluntary Production Level in 1,000 barrels per day (Jan 2022 to Mar 2022)

		January 2022		February 2022		March 2022	
	Reference Production up to end of April 2022	Voluntary Adjustment	Required Production	Voluntary Adjustment	Required Production	Voluntary Adjustment	Required Production
Algeria	1057	-85	972	-75	982	-65	992
Angola	1528	-122	1406	-107	1421	-93	1435
Congo	325	-25	300	-22	303	-19	306
Eq. Guinea	127	-10	117	-9	118	-7	120
Gabon	187	-15	172	-14	173	-12	175
Iraq	4653	-372	4281	-328	4325	-283	4370
Kuwait	2809	-224	2585	-197	2612	-170	2639
Nigeria	1829	-146	1683	-128	1701	-111	1718
Saudi Arabia	11000	-878	10122	-773	10227	-669	10331
UAE	3168	-252	2916	-222	2946	-192	2976
OPEC 10	26683	-2129	24554	-1875	24808	-1622	25061
Non-OPEC	17170	-1230	15940	-1084	16086	-937	16233
OPEC+	43853	-3359	40494	-2959	40894	-2559	41294

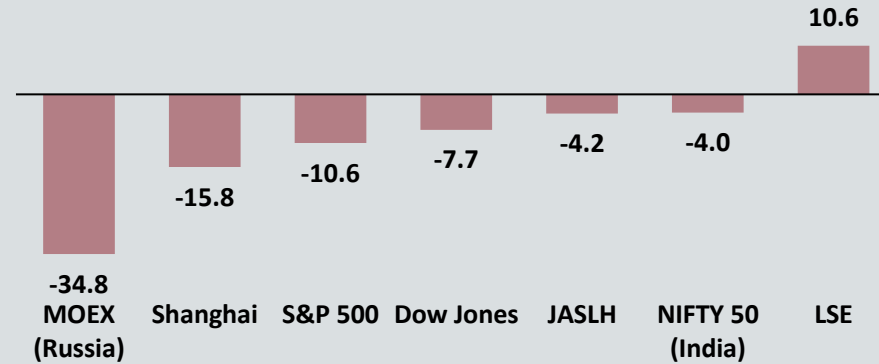
- Major oil producers continued to adjust upward the monthly overall production by 400,000 barrels per day for the month of March 2022.
- Production cut which stood at 3.36 million in January 2022 fell further to 2.56 million in March 2022.
- The Russia-Ukraine crisis disrupted global oil supply following trade delays and sanctions on Russia.
- To address the high crude oil price, the US and several countries decided to release 60 million barrels of crude oil into the market.
- This is expected to keep oil prices at bay in coming months.

Global Markets Performance in 2022

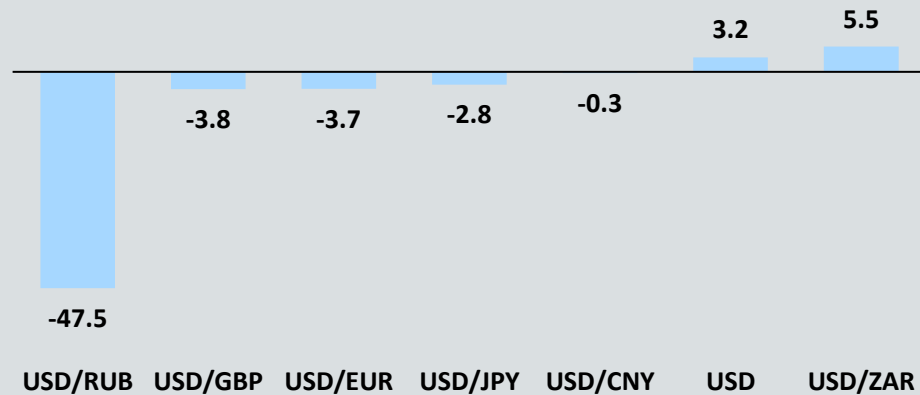
Ten Year Government Bond Yield Performance (%)



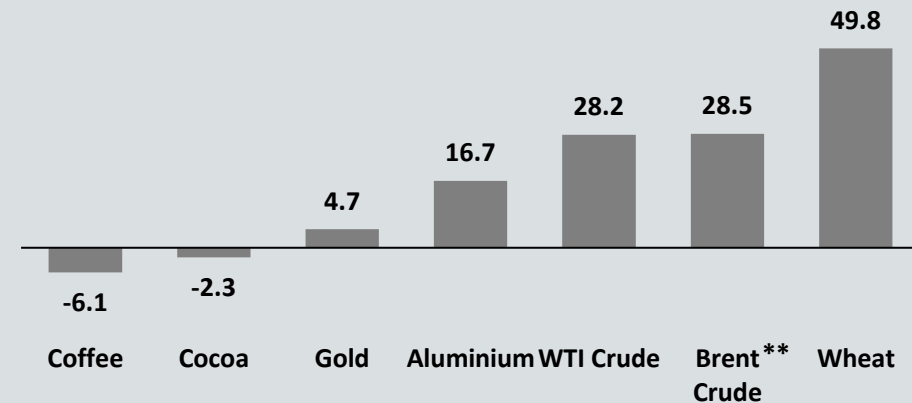
Stock Markets Performance, % Change (YTD – Mar 15)



Global Currency, % Change (YTD – Mar 15)



Commodity Markets Performance % Change (YTD – Mar 15)



**Brent Oil Futures

Data Source: investing.com

Analyst Views on the Global Economy

- The Russia-Ukraine Crisis constitutes a major headwind to global economic recovery following the strong growth experienced in 2021. In addition to the humanitarian challenges brought about by the crisis, its impact on the rest of the world are severe, especially given that both countries are major producers and exporters of key food items, mineral and energy products.
- As a result of the crisis, prices of major commodities have trended upward, even as commodity-importing countries continue to battle with scarcity of goods and rising inflation. Financial markets have also displayed poor performance, reflecting heightened uncertainty in the global economy. Consequently, the OECD projected that the global GDP will expand by 3.4% in 2022, lower than the initial projection of 4.5%. We also expect the IMF and World Bank to downgrade their global growth projections for 2022.
- Going forward, the global economic and investment landscape will remain volatile especially if the crisis intensifies. In this scenario, further sanctions will be imposed on Russia by the West, crippling its trade with the rest of the world. As a result, inflation, corporate performance, public debt and unemployment will increase, while economic growth will be subdued in many countries. In addition, several advanced countries are considering raising benchmark interest rates to curtail inflation, and this could result in investment outflows in developing markets.
- Looking at these, we believe that investors will continue to seek safety in haven assets like Gold and Treasuries. We advise investors to remain significantly underweight to equities with a preference for War & Defence stocks, and Commodity-focused companies (i.e. companies that sell key commodities like oil, gas, and other metals). In addition, we prefer retail investors shift exposure to debt instruments as the flight to safety could help counteract the impact of Fed's and other policymakers' policy normalization plan.

The Russia-Ukraine Crisis and the Nigerian Economy

The Russia-Ukraine Crisis and the Nigerian Economy: Transmission Channels

The Russia-Ukraine crisis is not only creating a humanitarian challenge for countries in Europe. It is also resulting in economic and social distress in several countries. For Nigeria, there are three main transmission channels.

1.

Oil Price Channel

- On March 8, crude oil price increased to US\$133.2 per barrel, due to sanctions on Russia by the United States and its allies.
- While the initial expectation was higher revenue for Nigeria, an oil producing country, lower than budgeted oil production volumes and higher subsidy payments erode the gains of rising oil price.
- Nigeria has also witnessed rising cost of other oil-related products such as diesel, aviation fuel etc.

2.

Trade Channel

- The crisis has resulted in the scarcity of commodities that are supplied by Russia and Ukraine. Commodities such as wheat, maize, metals have been severely affected.
- This has transcended into higher commodity prices, which will trigger inflation in the month of March and in subsequent months.

3.

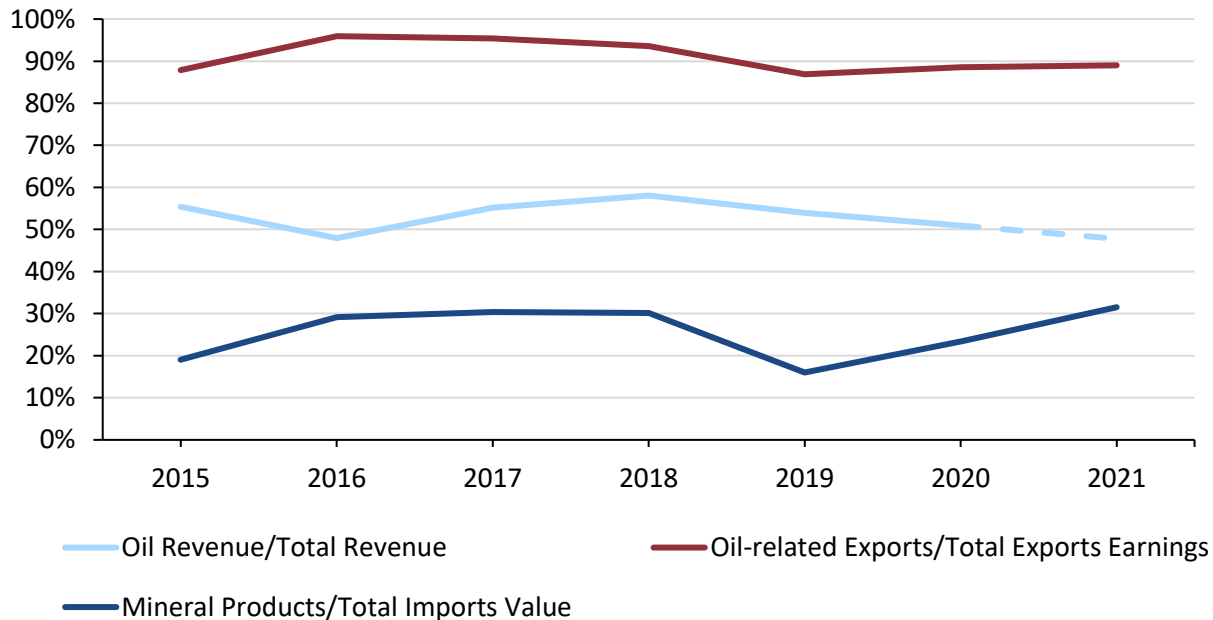
Financial Market channel

- The impact through this channel is yet to materialize. However, if the crisis intensifies, Central Banks in advanced countries are likely to raise interest rates to address inflationary pressure.
- This could trigger investment outflows from Nigeria and limit inflows, exerting pressure on exchange rate and external reserves.

The Russia-Ukraine Crisis and the Nigerian Economy: Oil Price Channel

In terms of the impact via the oil price channel, Nigeria's situation is complex. Nigeria is both an oil producing and petroleum importing country. Petroleum importation is a problem that the country has been unable to resolve for decades.

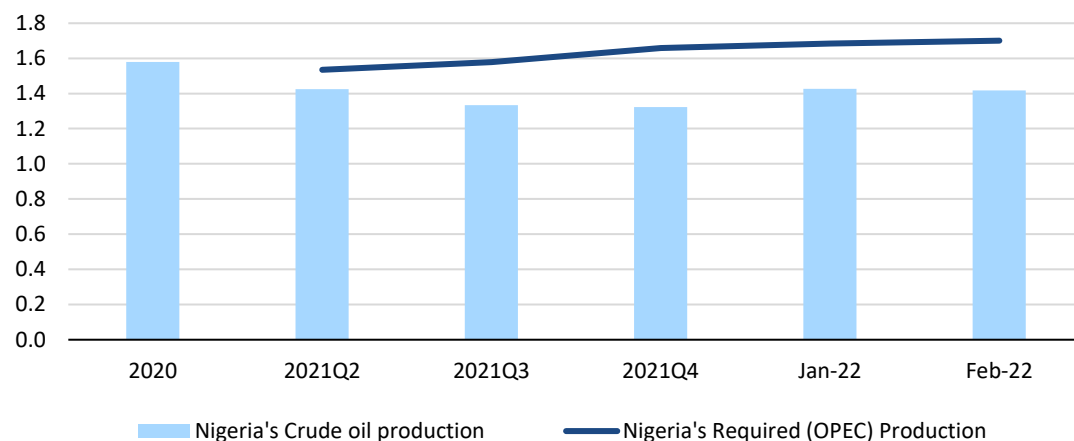
Oil Share of Exports, Revenue and Imports



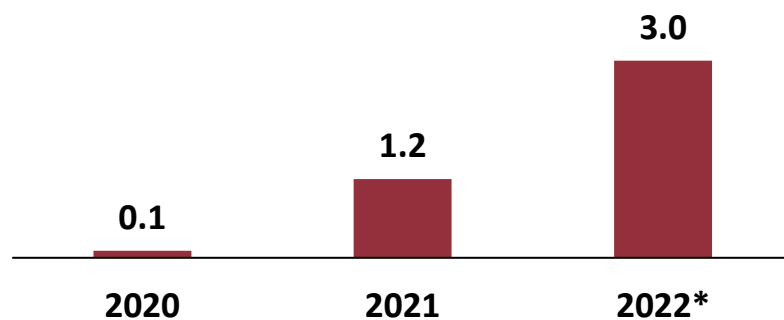
- Oil price increased to US\$133 per barrel in March 2022, far above the 2022 budget benchmark of US\$62 pb. Year-to-date (Mar 18), crude oil price has averaged US\$97.3 per barrel.
- While such price increase should be a positive development for Nigeria to improve oil revenue, which represents 35% of total revenue in the 2022 Federal Government budget, in reality, however, this is not the situation for the following reasons:
 - First, crude oil production continues to under-perform and remains below OPEC quota and the federal government budgeted benchmark of 1.88 million barrels per day (mbpd).
 - Second, the payment of subsidies on petrol is expected to increase and could be over N3 trillion in 2022.
- The inability of Nigeria to leverage on high crude oil price points to several structural problems of inefficiencies in the oil sector, crude oil theft, a weak petrol refining industry and the continuation of petrol subsidies.

The Russia-Ukraine Crisis and the Nigerian Economy: Oil Price Channel

Nigeria's actual crude oil production vs OPEC required production (mbpd)



Subsidy Payment in Nigeria (N' trillion)



*Estimated figure for 2022 presented to the Federal Executive Council in January 2022 when oil price was around US\$80 per barrel.

- In the 2022 federal government budget, N443 billion was allocated for fuel subsidy, covering the period January to June 2022. This was based on the assumption that subsidy will be halted as proposed in the Petroleum Industry Act.
- The reversal of the subsidy removal decision led to a new subsidy proposal for full year 2022 estimated at N3 trillion as at January 2022, when oil price was around US\$80 per barrel. The NNPC estimates Nigeria's petrol consumption at 65.7 million litres per day.
- Although oil price, which has trended upward since Russia's invasion of Ukraine, is expected to stabilise as OPEC and other oil producing countries such as the United States increase supply, subsidy payments in Nigeria will exert pressure on the finances of the federal government.
- Reuters reports that the Nigerian government plans to tap US\$2.2 billion of the amount raised in a Eurobond sale in 2021 along with local borrowing to fund subsidy payments in 2022.
- This move is expected to raise debt figures, particularly local borrowings, in 2022.

The Russia-Ukraine Crisis and the Nigerian Economy: Oil Price Channel

Average Automotive Gas Oil (Diesel) price increased by 37% in Feb 2022 (year-on-year)

	Average Price (Naira) Feb-21	Average Price (Naira) Jan-22	Average Price (Naira) Feb-22	Month-on- Month	Year-on- Year
North Central	228	292	319	9%	40%
North East	243	266	287	8%	18%
North West	238	244	269	10%	13%
South East	221	312	327	5%	48%
South South	221	304	336	10%	52%
South West	216	311	335	8%	55%
NATIONAL	228	288	312	8%	37%

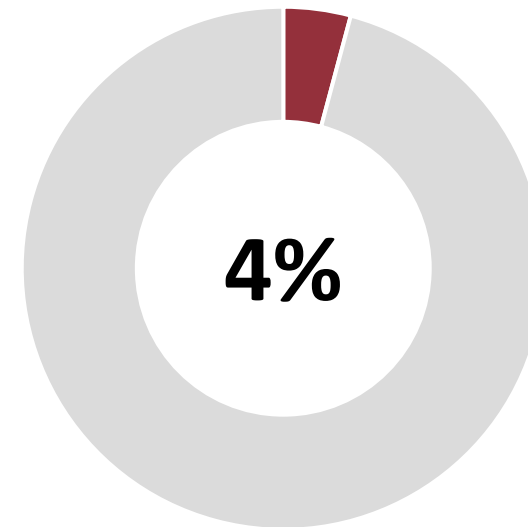
- In the Diesel market, which is deregulated, price rose to over N600 per litre in some parts of the country in March 2022. This is expected to trigger high operational cost, resulting in higher prices of goods and services.
- The price of aviation fuel has also been affected, leading to high of cost operation and a near-shutdown of operation of some airlines in the country as well as an increase in airfares.
- This triggered an intervention of federal government to sustain the operation of commercial airlines with an agreement to fix Aviation fuel at N500 per litre.
- In the short term, airfares are expected to increase further; but lower demand from customers could trigger a crisis in the aviation sector, and result in loss of jobs, rising debts and closure of airlines.
- In the long run, the federal government needs to develop and implement a clear plan to refine petroleum products in the country.

The Russia-Ukraine Crisis and the Nigerian Economy: Trade/Commodities Channel

- Nigeria's trade with Russia mainly involves importation of agricultural products. 49% of the total value of 15 major agricultural goods imported into Nigeria in 2021 came from Russia.
- With Russia facing sanctions, importation of some agricultural products have been affected, hence the increase in prices of several goods.
- In Nigeria, wheat is a major input for many consumables such as bread, flour, pasta and other baked products.
- The price of muriate of Potash (MOP) fertilizer, has increased significantly following the sanctions. Russia and Belarus are major producers of the commodity.
- In addition, many vessels are stuck in the Black sea due to hostilities and port closures.
- Sustained sanctions, delays of transportation and supply chain disruption will threaten food security and lead to an increase in food prices in Nigeria.

In the third quarter of 2021, Nigeria imported goods worth N339 billion from Russia, accounting for 4% of total import in the quarter. Russia was Nigeria's 6th largest import partner.

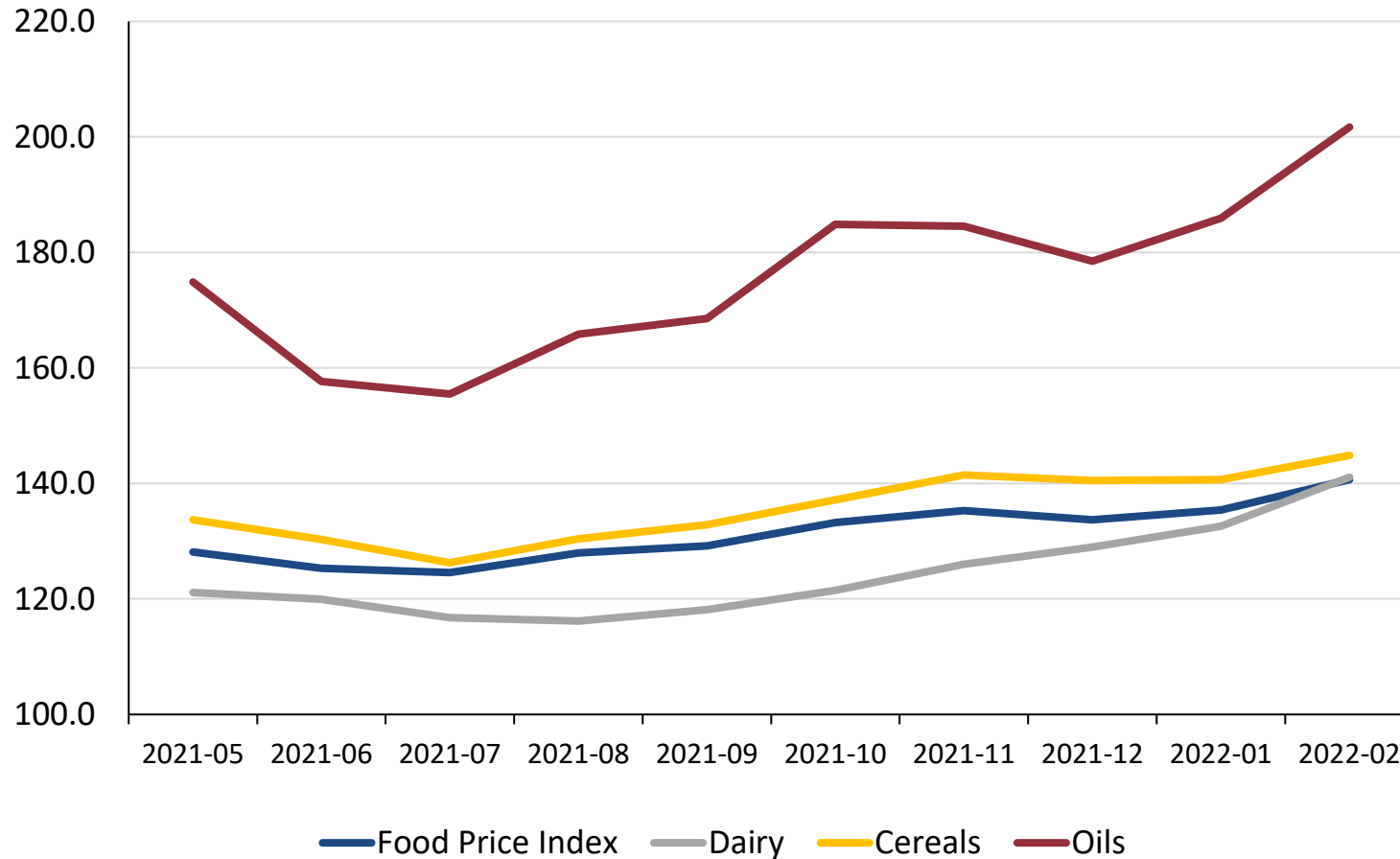
Nigeria's import from Russia as a share of total imports in 2021Q3



Data Source: National Bureau of Statistics

The Russia-Ukraine Crisis and the Nigerian Economy: Trade/Commodities Channel

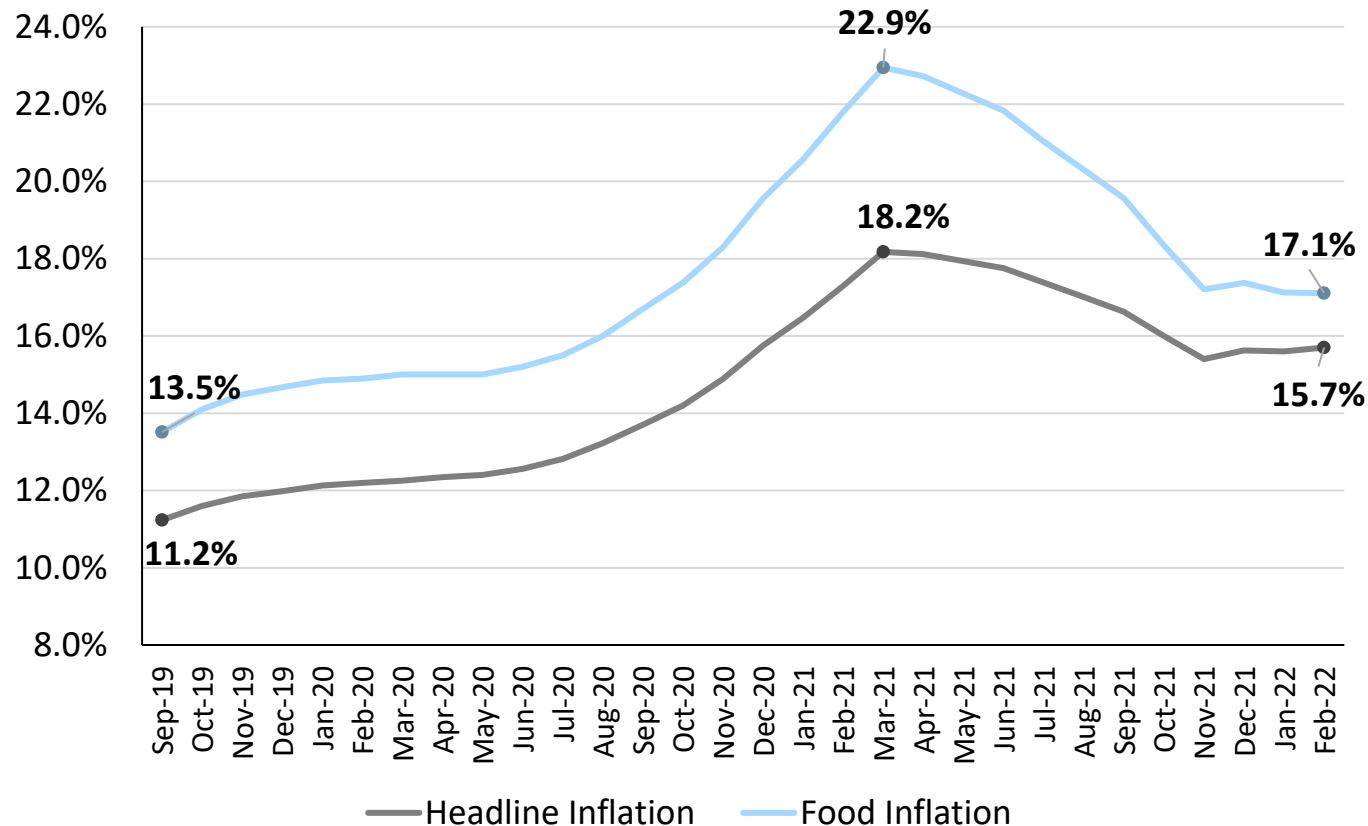
FAO Food Price Index increases to an all-time high in the month of February 2022



- The Russia-Ukraine crisis pushed up FAO Food Price Index (FFPI) to an all-time high of 140.7 points in February 2022, from 135.4 points in January 2022.
- The increase was driven by rapid price gain in vegetable oil and dairy price sub-indices.
- Within the Cereal price index, there was an increase in prices of major cereals such as wheat, maize, sorghum and barley in the month of February.
- According to the FAO, global wheat prices increased by 2.1 percent, largely reflecting new global supply uncertainties amidst disruptions in the Black Sea region that could potentially hinder exports from Ukraine and the Russian Federation, two major wheat exporters.

The Russia-Ukraine Crisis and domestic constraints are driving up average prices in Nigeria

Nigeria's Inflation Rate



- Nigeria's inflation rate rose marginally from 15.6% in January 2022 to 15.7% in February 2022. On a month-on-month basis, average prices rose by 1.63%, the highest increase since May 2017.
- In the month of February, increases were recorded for both food and core inflation. Average food prices rose by 17.1% year-on-year, while core inflation rate was 14%.
- Rising prices in Nigeria are driven by a combination of factors such as:
 - supply chain disruption due to delays in the black sea;
 - scarcity of inputs such as fertilizer and wheat;
 - irresponsibility and negligence in the case of the recent importation of contaminated petrol into Nigeria, which resulted in petrol scarcity and higher prices of goods and services;
 - oil price increase which translated into higher price of diesel and other by-products and
 - electricity outage following the collapse of national grid in March.

Top 5 categories with the highest increase in Inflation

Inflation Rate in February



**Alcoholic Bev.,
Tobacco & Kola-
14.5%**

Resilient consumer demand coupled with high operating costs are major factors that are driving up prices of alcoholic beverages in Nigeria.



**Housing Water,
Electricity, Gas and
Other Fuel – 11.8%**

Soaring gas prices were largely responsible for rising inflation in this category.



**Recreation &
Culture
14.2%**

Higher demand for local hospitality services due to COVID-19 continues to drive up prices in this category.



**Restaurant & Hotels
13.7%**

Higher demand for local hospitality services as well as high cost of doing business partly drove inflation in this category to 13.7% in February 2022.



**Clothing and
Footwear – 15.7%**

Prices of clothing and footwears continued to increase in 2022 on the back of higher transport costs and import bottlenecks.

Prices of goods and services in Nigeria are on the rise

Transport Prices in Nigeria

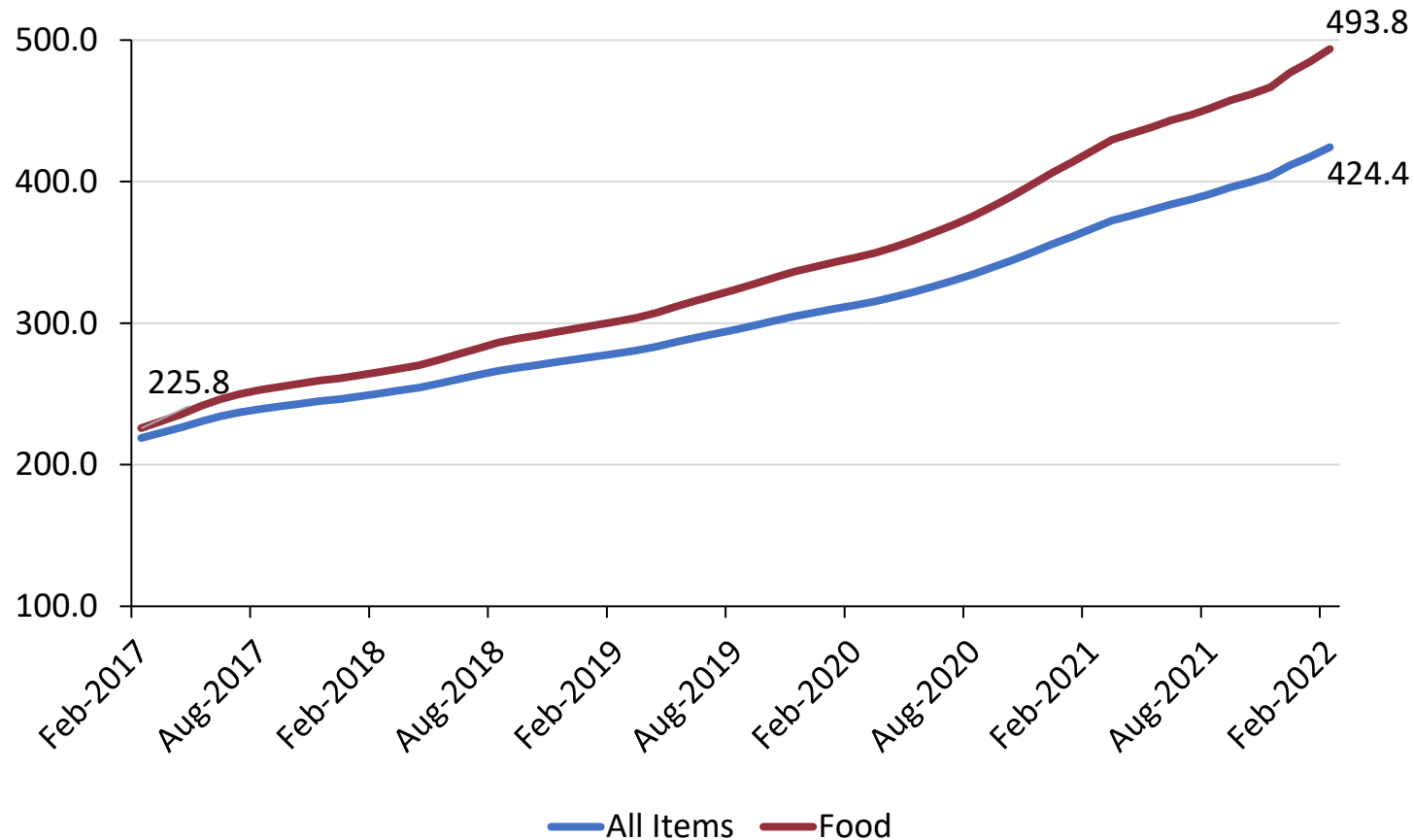
	Average Price (Naira) Feb-21	Average Price (Naira) Jan-22	Average Price (Naira) Feb-22	Month-on- Month change	Year-on- year change
Air fare charge for specified routes single journey	36,458	38,352	44,825	17%	23%
Bus journey intercity, state route	2,373	2,801	3,107	11%	31%
Bus journey within city , per drop constant	361	476	500	5%	38%
Journey by motorcycle (Okada) per drop	267	341	379	11%	42%
Water transport : water way passenger transport	794	888	913	3%	15%

National average prices (in Naira) of select food items

	Feb-21	Jan-22	Feb-22	MoM	YoY
Bread sliced 500g	327	419	438	5%	34%
Frozen chicken	1919	2276	2351	3%	23%
Groundnut oil: 1 bottle, specify bottle	677	941	971	3%	43%
Rice, imported high quality sold loose	537	579	595	3%	11%
Vegetable oil: 1 bottle	667	921	950	3%	42%

Consumer Price Index shows the dramatic increase in prices over a 5-year period

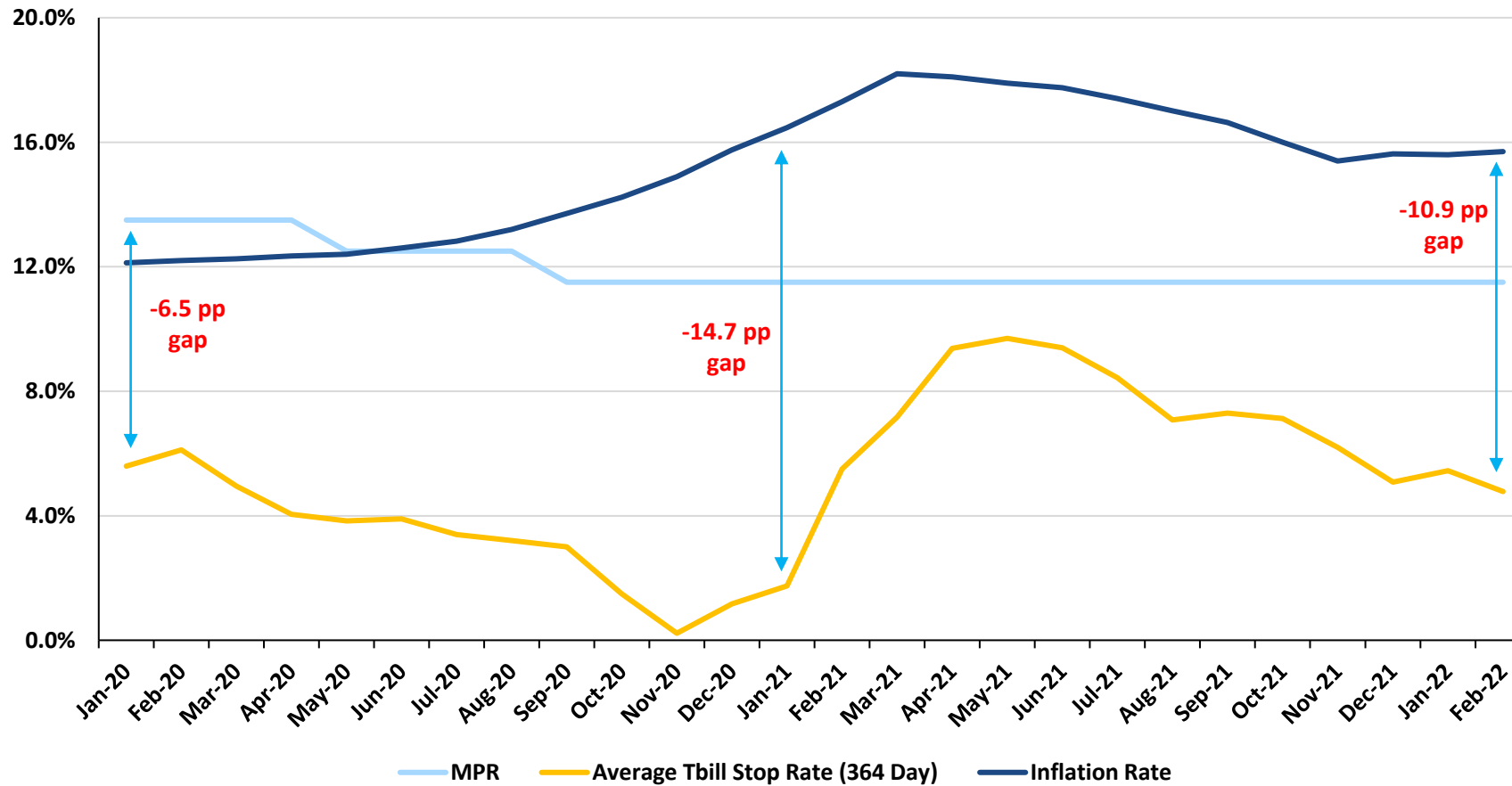
Nigeria's Consumer Price Index



- A look at the Consumer Price Index (CPI), from which inflation is computed, shows a steady increase in average prices overtime.
- Average prices of goods and services have almost doubled since 2017, growing by 94% from February 2017 to February 2022.
- During the same period, food prices, on average, increased by 119%. When inflation figures for the month of March are released in April, we expect a significant increase in the CPI, especially with the supply shocks from higher energy, transport and commodity prices.
- Faster increase in food prices over the years have eroded purchasing power of majority of Nigerians.
- Higher prices have also affected businesses through higher costs and negative real investment yields.

Real interest rate expanded in February 2022

Real Interest Rate: Monetary Policy Rate (MPR), 364-Day Treasury Bill Average Stop Rate vs Inflation Rate



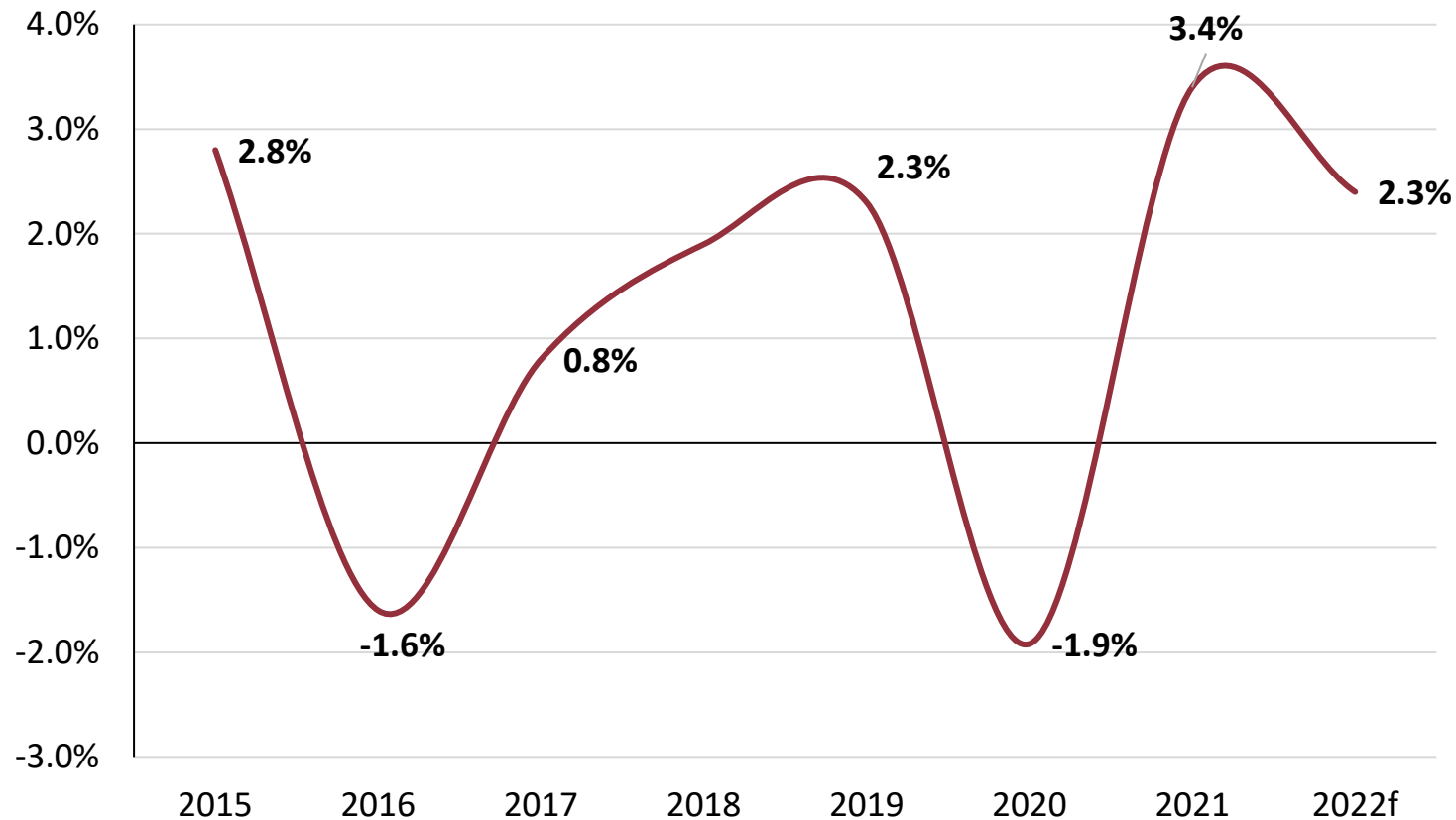
*pp - percentage points

- The gap between interest rate and inflation rate expanded in the month of February to -10.9 percentage points from -10.5 in Dec 2021.
- There was a reversal in the downward movement of inflation rate while interest rate declined to 4.8% in February.
- The anticipated increase in average prices following the impact of the Russia-Ukraine crisis on food and commodities will widen the gap between interest rate and inflation in coming months.

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

Our Growth forecast for 2022 was lowered in consideration of the Russia-Ukraine Crisis

Nigeria's Real GDP growth



- In our Macroeconomic Outlook report released in December 2021, the projection of real GDP growth for 2022 was 2.6%.
- The outbreak of the war, in our view, will have an effect on the Nigerian economy through three main channels: oil price, trade and financial channels.
- The oil price and trade channels highlighted earlier are expected to dampen economic growth especially through higher cost of inputs such as diesel, wheat and other commodities imported by Nigeria.
- Already, high cost of doing business, rising food prices, poor power supply and insecurity are exerting pressure on economic growth and as this pressure intensifies due to the crisis, growth will be subdued even further.
- We expect real GDP to grow by 2.3% in 2022.

How major Sectors in Nigeria will be impacted by the Russia-Ukraine Crisis

AGRICULTURE

- Agricultural commodities and inputs such as wheat and fertilizer are short in supply and this has driven prices upwards.
- Improved local demand for agricultural commodities as manufacturing firms look to secure inputs could spur growth in agricultural output.

Opportunities: Farmers have the opportunity to improve yields on commodities in high demand such as wheat, maize, etc, in the medium term. Wheat production in Nigeria was 36,943 MT in 2021 while demand was estimated at 4.5 and 5.0 million tonnes by USAID.

FINANCIAL SERVICES

The Russia-Ukraine crisis has led to higher inflation across many advanced countries. Monetary authorities are more likely to tighten monetary policy which could result in capital outflows in developing countries. This could lead to volatility in the Nigerian capital market.

Opportunities:

The Central Bank of Nigeria could raise interest rates to attract foreign investments into the capital market. Reforms to ensure clarity in the FX market are crucial.

CRUDE OIL

Despite high oil price, Nigeria continues to struggle in meeting OPEC quota. Issues of insecurity, inadequate local investment in the oil & gas sector, pipeline vandalism and doing business challenges have constrained oil production in the country.

Opportunities: In 2021, about 10% of Europe's supply of liquefied natural gas (LNG) was from Nigeria. Nigeria has an opportunity to increase production and supply of oil and gas by addressing key constraints to investment in the oil and gas sector.

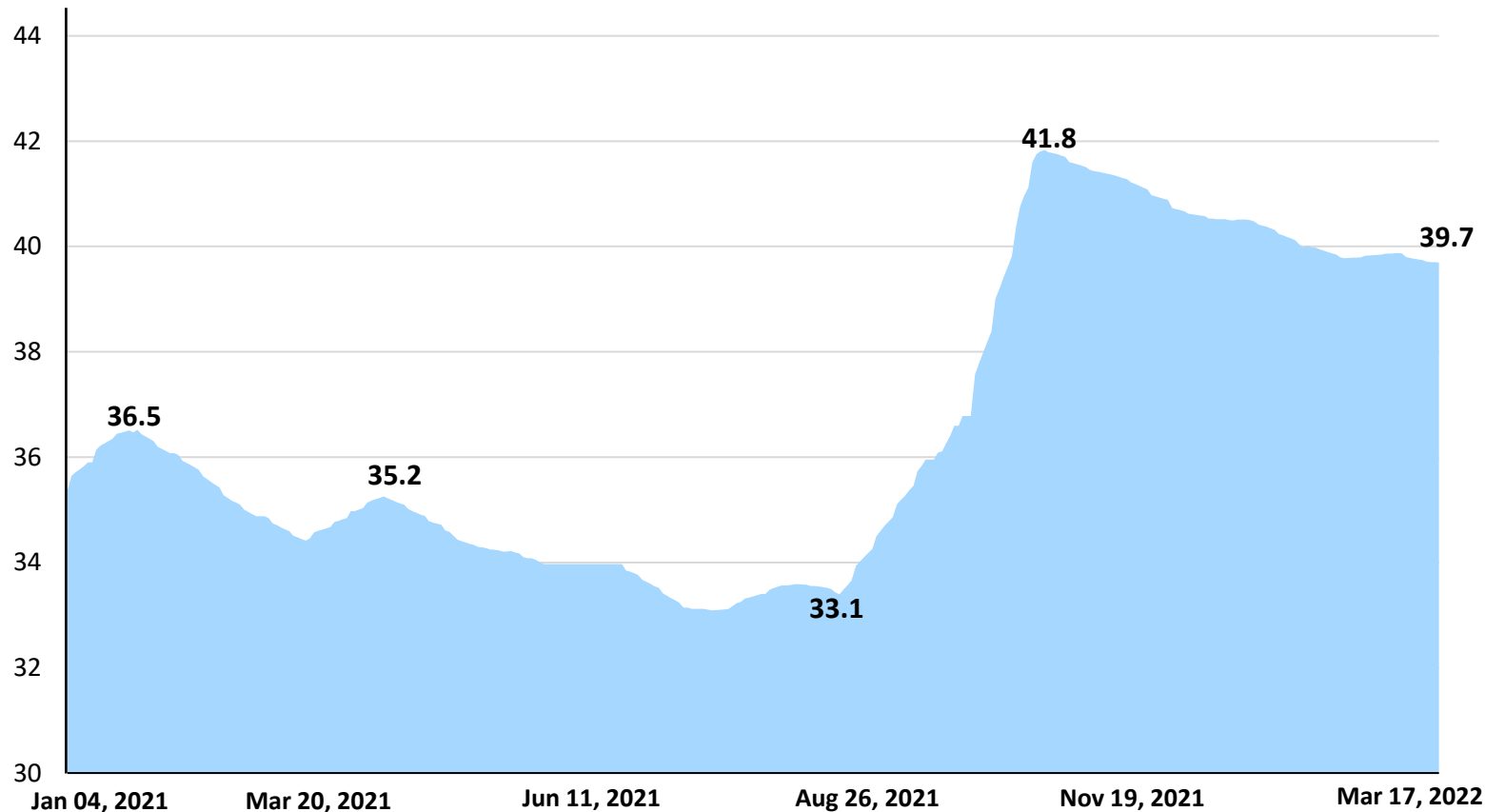
MANUFACTURING

Scarcity of wheat and other commodities, coupled with high diesel/energy cost will increase production cost, particularly for firms in the food and beverage segment.

Opportunities: There is an opportunity for firms to embark on backward integration and source input locally especially due to the heightened global supply chain disruption since COVID-19.

Higher Crude Oil Price was not enough to improve External Reserves

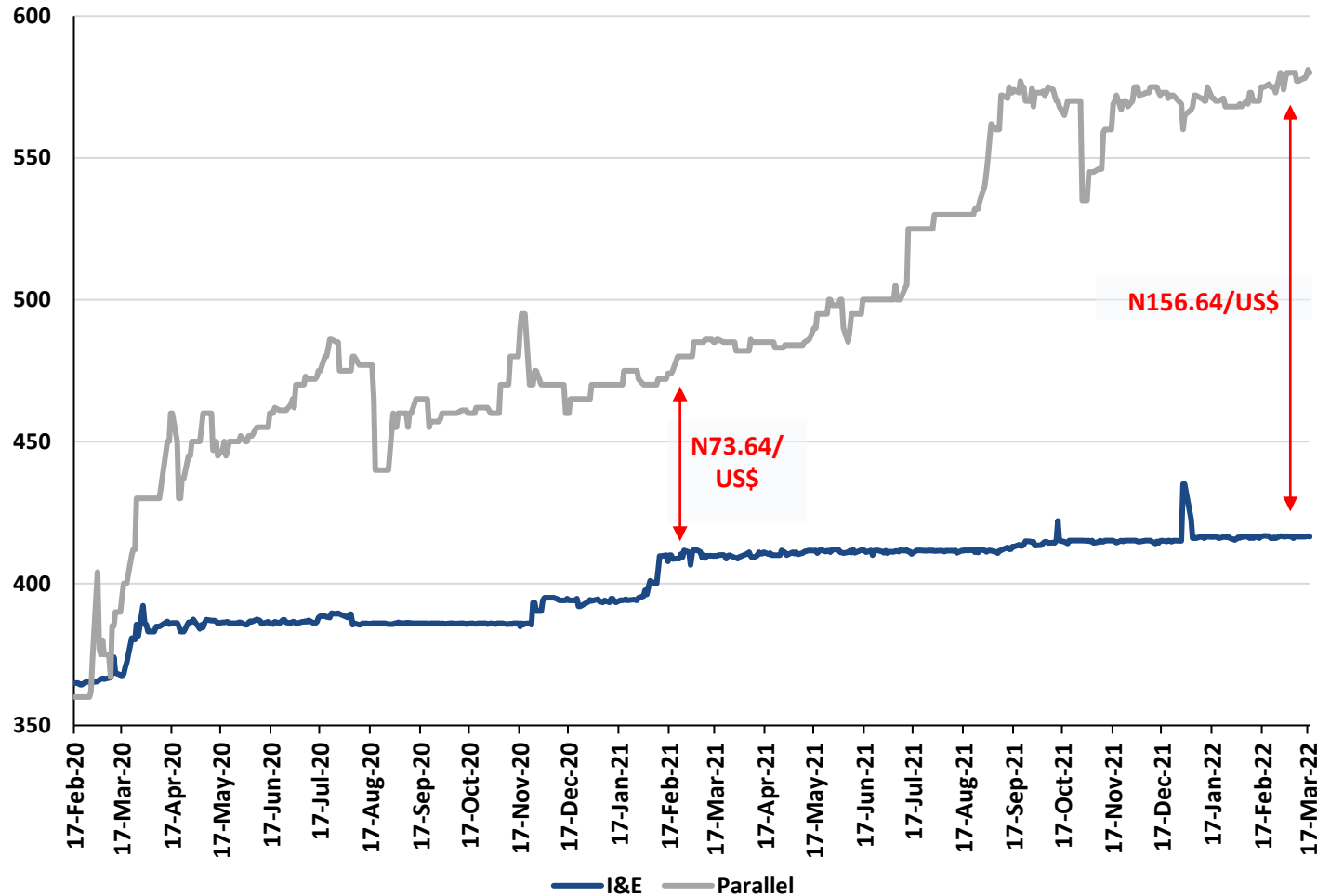
Nigeria's External Reserves (US\$ Billion)



- Since the approval of the US\$3.35 billion Special Drawing Rights (SDRs) by the IMF in August 2021 and the issuance of Eurobond in September, external reserves have trended downwards.
- Reserves, which opened the year 2022 at US\$40.5 billion, have lost 2% of its value since the start of the year.
- Lower oil production below the budgeted benchmark despite high crude oil price led to limited foreign currency inflows needed to boost the reserves.
- In addition, rising import bills continued to exert pressure on external reserves and this is expected to continue into the year.

Despite subdued foreign investment inflows, the I&E Window remained stable

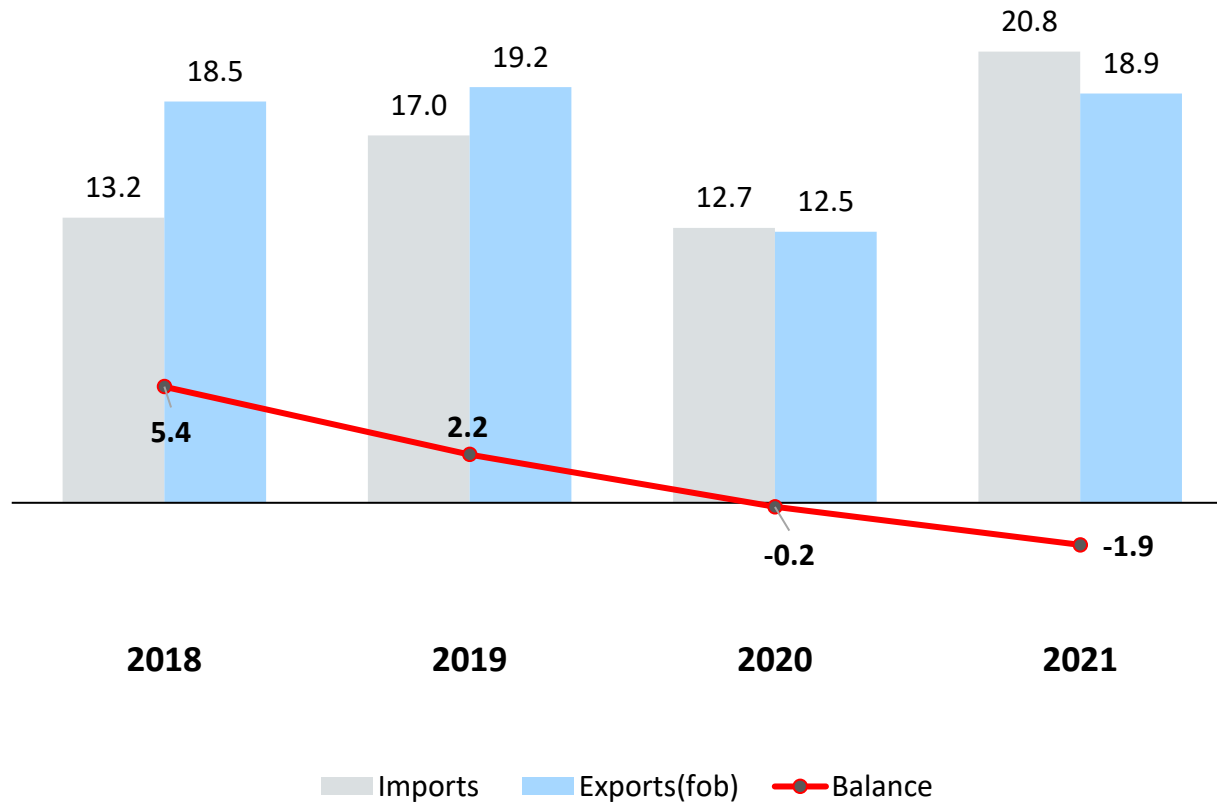
Nigeria's Exchange Rate (N/US\$)



- While Nigeria continues to struggle with diversifying and improving foreign exchange inflows, exchange rate in the Investors' and Exporters' (I&E) Window has remained stable so far in 2022.
- The Naira exchange rate on the first trading day in 2022 stood at N422/US\$ on the I&E Window. It appreciated to N416.50/US\$ as at 15th March 2022.
- The parallel market, on the other hand, experienced pressure. The gap/premium between the two markets increased to N156.6/US\$ in 2022Q1 from N73.64/US\$ in 2021Q1.
- The Parallel market rate as at March 15, 2022 stood at N578/US\$, increasing from N565/US\$ at the beginning of the year.

Trade deficit was N1.9 trillion in 2021 as imports grew stronger in the year

Nigeria's Trade Statistics (N'Trillion)



- Nigeria's trade deficit was N1.9 trillion in 2021, up from N200 billion recorded in 2020, according to the latest data from the National Bureau of Statistics.
- The increase in trade deficit was driven by stronger growth in the value of imports relative to exports between 2020 and 2021.
- Imports consisted mainly of manufactured goods (share of 50.5%), other oil products (29%) and agricultural products (11.2%).
- Crude oil and oil related products continued to dominate exports, accounting for 89% of total export value in 2021.
- While trade deficits in previously released NBS reports were larger owing to a much higher import value, we observe a change in trade data which saw a significant reduction in trade deficit for 2020 and 2021 (Q1-Q3)*. The NBS cited an update on the methodology and harmonisation of trade data as the reasons for the changes.

* For instance, for the year 2020, trade deficit was reported as N7.4 trillion in NBS 2021Q3 Foreign Trade report. In the recently released 2021Q4 report, trade deficit for the year 2020 was N178 billion.

Analyst Views: Outlook on GDP Growth and Inflation

GDP Growth and Inflation

- The Nigerian economy was expected to continue on its recovery path in 2022, following a strong growth of 3.4% in the previous year. However, the first quarter of the year has been challenging for different economic agents – businesses, households and the government.
- The crisis in Ukraine as well as domestic constraints have intensified existing pressure in the economy.
 - First, the increase in the price of agricultural commodities has elevated cost of input and food prices, which will constrain growth in the year.
 - Secondly, scarcity of energy products and higher prices of diesel and aviation fuel have had detrimental impacts on businesses across different sectors. Players in the aviation sector have threatened to shut down operations due to higher cost.
 - Thirdly, the shutdown of the national grid in March 2022 and continued insecurity are negatively impacting businesses across several sectors in the country.
- For the government, high subsidy payment and lower crude oil production threaten the realization of oil revenue, despite high oil price as a result of the crisis in Ukraine. The government plans to accumulate more borrowing to fund subsidy payments in 2022 which could exceed N3 trillion. This will further raise debt levels and increase debt servicing costs as a share of revenue, which was already high at 76% in 2021 (Jan - Nov).
- The implications of these challenges are higher cost for businesses, limited investment inflows into the real sector and a decline in real aggregate demand.
- ***In view of these challenges, we have revised downward our GDP growth projection for 2022, from 2.6% to 2.3% in our moderate case scenario.***

Analyst Views: Outlook on External Reserves and Exchange Rate

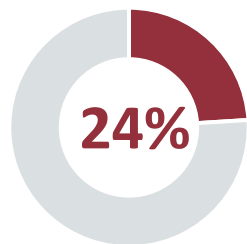
External Reserves and Exchange Rate

- Although exchange rate was stable in the Investors' & Exporters' Window, external reserves trended downward reflecting the intervention of monetary authority to keep the Naira stable. In addition to frequent intervention, the Central Bank launched the "Race to US\$200 billion in FX Repatriation (RT200 FX Programme)" to boost foreign currency inflows into the economy.
- This Programme aims to diversify foreign exchange sources with a goal of attracting US\$200 billion over the next 3 to 5 years. The Programme is anchored under five themes: Value-Adding Exports Facility; Non-Oil Commodities Expansion Facility; Non-Oil FX Rebate Scheme; Dedicated Non-Oil Export Terminal and Biannual Non-Oil Export Summit. The CBN aims to offer a local currency rebate to non-oil exporters of finished produce who sell their export proceed in the I&E window to boost market liquidity.
- While the objectives of the Programme are laudable, we believe that successful implementation of such Programmes lies not only with the CBN but also with the fiscal authorities and Ministries of Agriculture, Industry, Trade and Investment, among other stakeholders.
- Efforts to improve the business environment coupled with clarity on foreign exchange policies remain vital in attracting investment into the country, boosting external reserves and ensuring exchange rate stability.
- With the crisis in Ukraine triggering inflation rate across the world, advanced countries are expected to raise benchmark rates to restore price stability. In March 2022, the US, for instance, raised rates by 0.5% while the Bank of England increased interest rate from 0.5% to 0.75%. Rate increase limits the possibility of investment inflows into Nigeria and also creates pressure on exchange as capital exits the country.
- Our expectation for exchange rate, therefore, is a depreciation to N430/US\$ in 2022.

Fiscal and Monetary Update

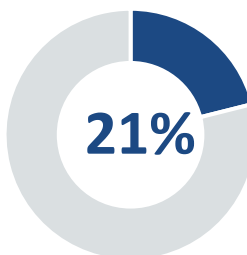
Personnel Cost, Debt Servicing and Capex account for 80% of 2022 Budget Expenditure

Personnel Costs



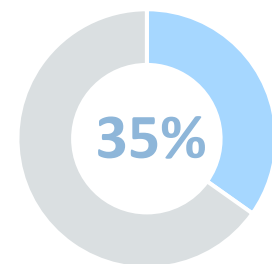
In the 2022 Budget, personnel cost accounted for 24% of the total expenditure of N17.1 trillion. Personnel cost increased from N3.75 trillion in the 2021 Budget to N4.1 trillion in the 2022 Budget.

Debt Servicing



Debt servicing accounted for 21% of the total expenditure in the 2022 Budget. The debt servicing value of N3.61 trillion represents 34% of budgeted revenue in 2022. Actual figure is expected to be higher than the budgeted share of 34%, especially due to lower revenue. Actual debt service/revenue ratio was 76% as at November 2021.

Capital Expenditure



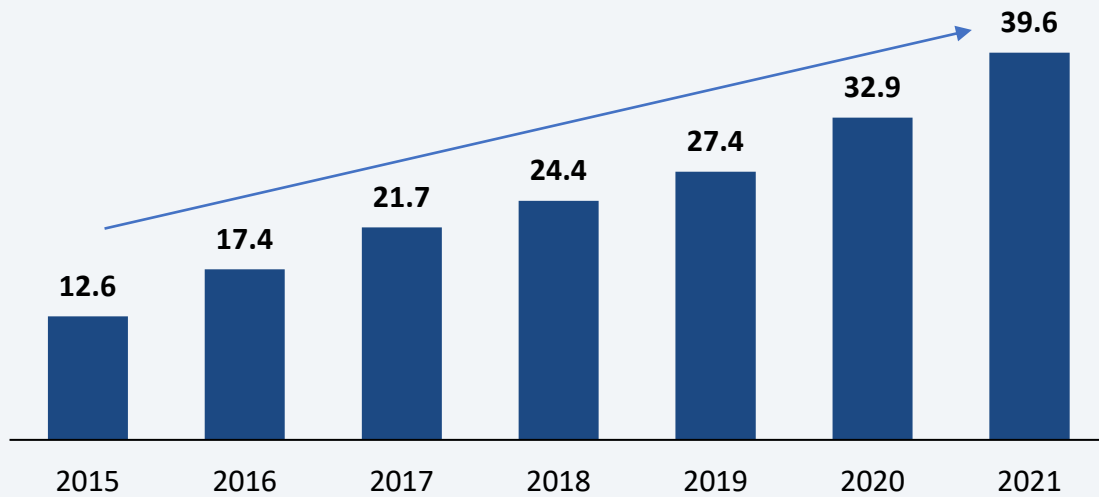
Capital expenditure as a share of total expenditure was as high as 35% in the 2022 budget. In the 2021 budget, its share was 36%. In 2021 (Jan – Nov), capital expenditure had a pro-rata performance of 74.4%, with N3.4 trillion spent on capital projects.

Strategic Revenue Growth Initiatives

- Government's response to improve non-oil revenue is through the implementation of the Strategic Revenue Growth Initiatives (SRGI).
- Over the medium term, the target is to grow Revenue-to-GDP ratio from the current 8 – 9 percent to 15 percent by 2025.
- Some key objectives include:
 - Improve the tax administration framework including tax filing and payment compliance.
 - Review of sectors eligible for Pioneer Tax Holiday Incentives under the Industrial Development Income Tax Relief Act ('IDITRA');
 - Set annual ceilings on tax expenditures to better manage their impact on already constrained government revenues.
 - Leverage technology and automation; and
 - Plug fiscal drainers like subsidies

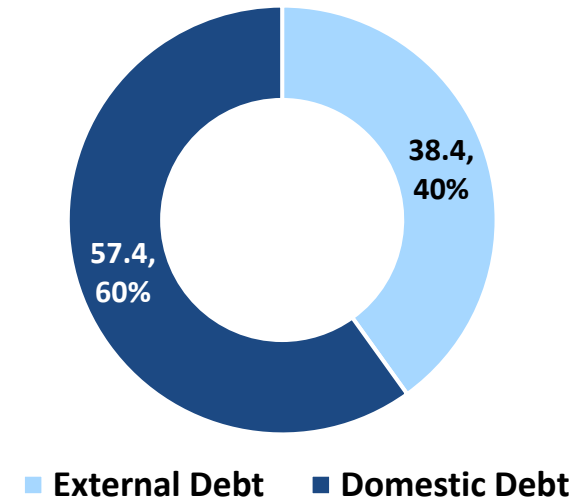
Public Debt expanded to N39.6 trillion (US\$95.8 billion) as at December 2021

Nigeria's total Public Debt Stock (Trillion Naira)

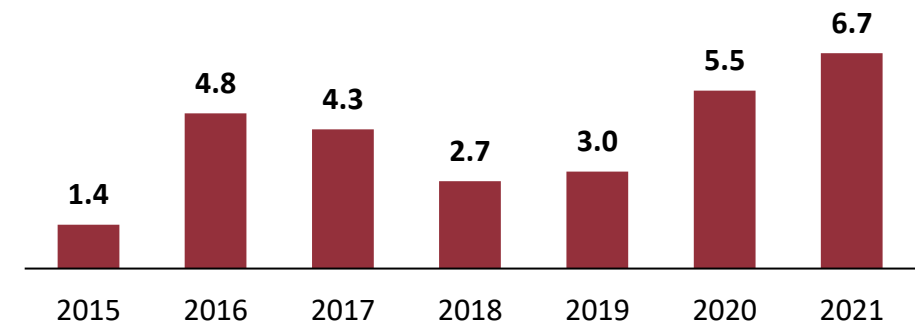


- In 2021, a net amount of N6.7 trillion was added to Nigeria's total public debt stock, higher than the N5.5 trillion added in 2020.
- Since 2015, Nigeria's debt has increased by more than three folds to N39.6 trillion. When CBN Ways and Means and AMCON liabilities are included, overall debt could hit N60 trillion.
- Total public debt is expected to trend upward following a budget deficit of N6.4 trillion for 2022 and the traditional underperformance of government revenue.

Breakdown of Public Debt in 2021 in Billion US\$

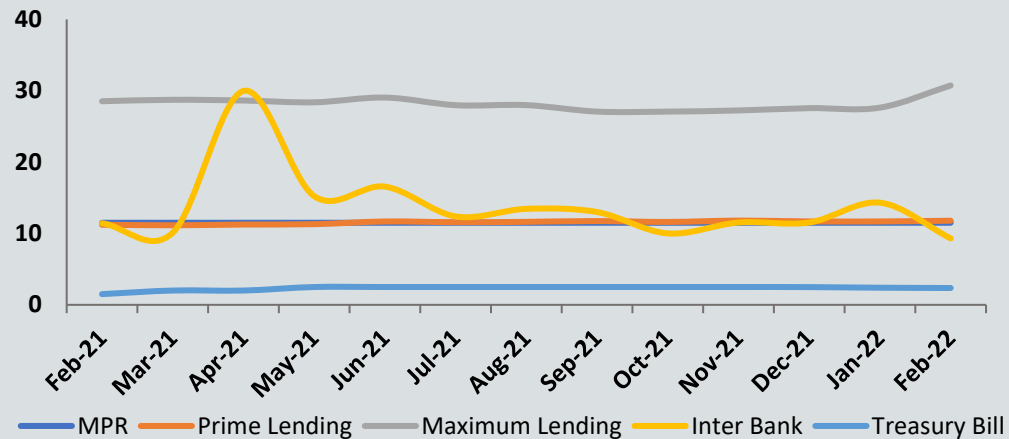


Net Addition to the Debt Stock

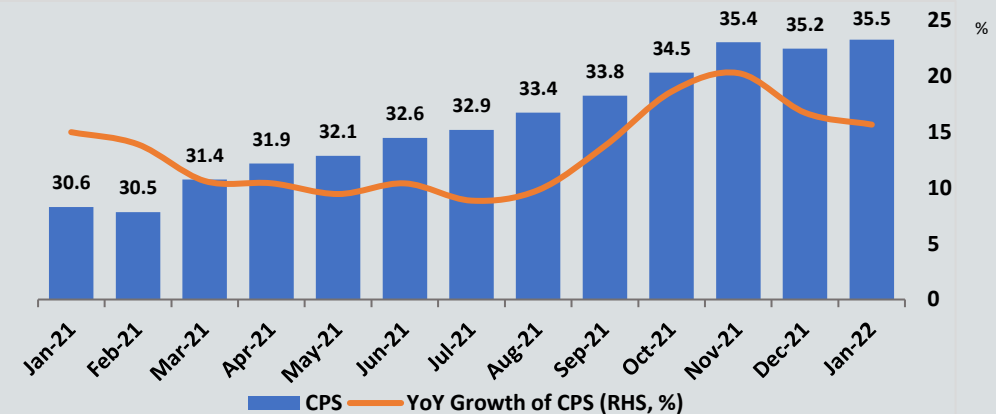


Monetary Policy: Key Charts

Lending Rate (%)



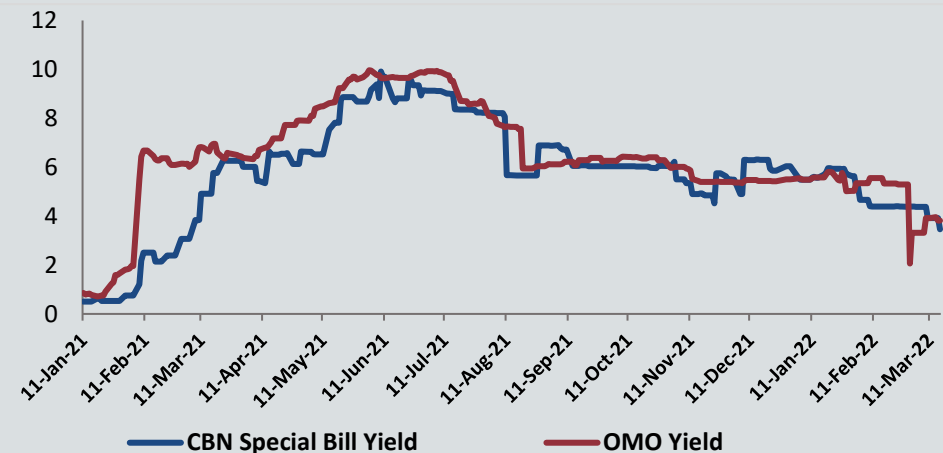
Credit to Private Sector (N'Trillion)



Financial Deepening Indicators (%)

	Jan-21	Jun-21	Oct-21	Nov-21	Dec-21	Jan-22
Currency/M2	7.50	7.07	6.84	6.96	7.19	7.40
Currency/GDP	1.63	1.58	1.63	1.71	1.81	1.89
M2/GDP	21.75	22.35	23.90	24.55	25.25	25.62
CPS/GDP	17.66	18.80	19.89	20.39	20.28	20.43
Stock Market Capitalization/GDP	8.56	11.39	12.64	13.00	12.58	14.48

CBN Special Bill Yield (%)



Monetary Policy: Outlook and Expectation

In the second meeting of the CBN Monetary Policy Committee (MPC) held in March 2022, the Committee maintained its policy stance for the eight consecutive 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 risks of Imported inflation
- Increase in prices of goods and services, which are influenced by supply-side factors such as the scarcity of PMS, persisting insecurity and backlash from the Russia-Ukraine crisis.
- The need to ensure exchange rate stability.
- The fragile state of Nigeria's GDP growth.
- Consistent improvement in credit to the private sector.

Outlook and expectations

- We noted in the previous Macroeconomic report that the base effect will influence economic growth in 2022, especially in the second and third quarters.
- A prolonged Russia-Ukraine crisis constitutes further downside risk to growth, especially as Nigeria has been unable to maximize the benefits associated with the increase in oil price. Rather, the federal government is constrained with a bloated subsidy cost. The crisis also has the tendency to trigger imported inflation in Nigeria.
- These challenges constitute a dilemma for the MPC as the Committee intends to continue to support growth. Exposure to such external risks will negatively affect economic output and the MPC could consider lowering rates to support the real sector.
- On the other hand, the possibility of massive capital outflows from Nigeria are real, especially if yields continue to rise in advanced countries. Therefore, one remedy for such capital outflow is raising interest rates, to retain and attract foreign capital. These are the two options facing the MPC in the first and second quarters of 2022.
- We anticipate that the Committee will retain policy parameters in its meeting in the first half of 2022 to examine the impact of the crisis on different aspects of the economy.

Analyst Views: Fiscal Policy

Fiscal Deficit, Government Revenue and Public Debt

- We note the rising fiscal deficit in the federal government budget over the years. From a share of 3.5% of nominal GDP in 2020 to 4% of GDP in 2021, actual deficit increased to N7 trillion in 2021 (Jan – Nov) from N5.35 trillion in 2020 (Jan – Nov). Although fiscal deficit in the 2022 FGN Budget is projected at 3.5% of GDP, a review of past trend, coupled with lower than expected revenue imply that deficit will exceed its target in 2022.
- In essence, government revenue will underperform as a result of higher subsidy payments and limited oil production while expenditure (on recurrent items) will fall in line with budgeted estimates. Rising deficit, at a time when crude oil price is high, points to the existence of several fundamental and structural problems such as oil theft, subsidy payment, lack of adequate investment in the oil and gas segment, which the Nigerian government has failed to address for decades.
- By implication, Nigeria's public debt will increase further in 2022. Already, government debt has risen by more than three folds since 2015 or by almost five folds when CBN Ways and Means and AMCON liabilities are included in total debt. As a share of GDP, public debt appears below the sustainability threshold of 40%. However, debt servicing cost as a share of revenue is high, and stood at 76% as at November 2021. This means that Nigeria could be trapped in a debt cycle, where it borrows to fund recurrent expenditure. For instance, from Jan – Nov 2021, aggregate capital expenditure was N3.4 trillion while total borrowing stood at N7 trillion, according to data from the Federal Ministry of Finance, Budget and National Planning. Rising debt costs, without a corresponding increase in revenue could trigger macroeconomic instability, if the trend continues.
- Going forward, there is a need for urgent and consolidated efforts by the federal and state governments to address the challenges of oil theft and pipeline vandalism, which are crucial in improving oil output and by extension, oil revenues. For non-oil revenue, the harmonization of government taxes, plugging leakages, ensuring transparency and accountability in the management of public funds and improving the business environment are necessary in the short to medium term.

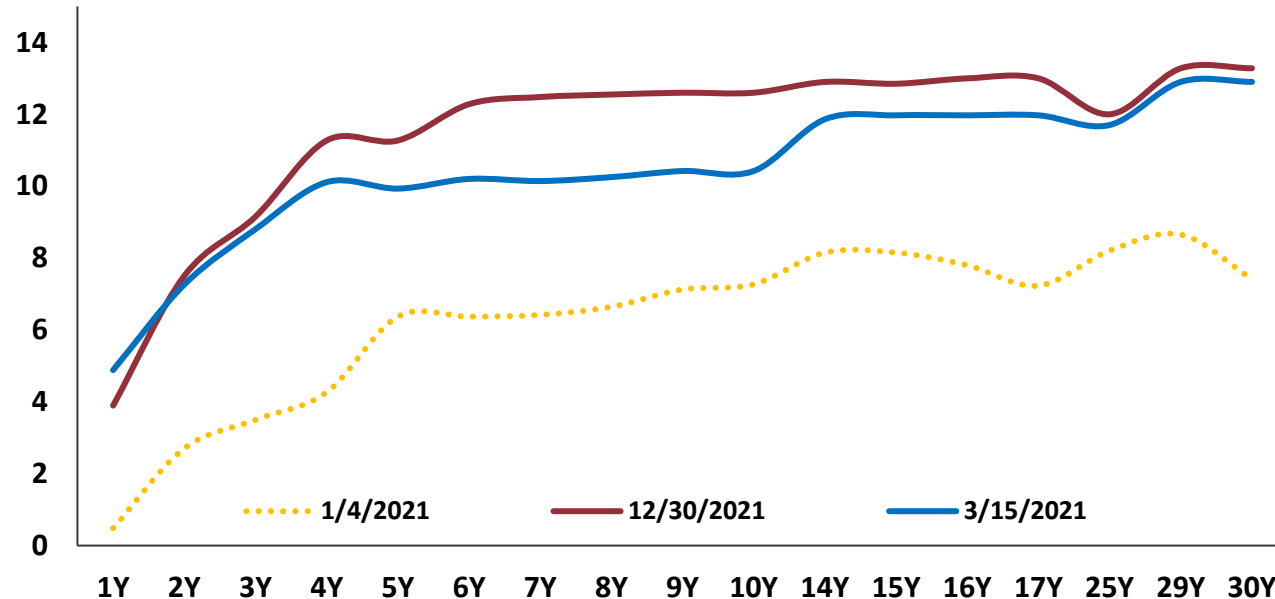
Market Performance

Average yields in Nigeria are tapering mainly due to expansion of liquidity

Average Yields in FGN Bond Market

6.29% **11.55%** **10.44%**
 (04/1/2021) (30/12/2021) (15/03/2022)

FGN Bond Yield Curves



- Since the start of 2022, yields across the Nigerian fixed income market are tapering.
- The average yield in the FGN Bond market inched downward from the start of the year to Mar 15 2022. Yields fell to 10.44% from 11.55% at the end of 2021Q4.
- Key factors such as expansion of liquidity coupled with the drive by the federal government to keep borrowing cost low are responsible for the decline in yields of FGN bonds

NT-Bill yields fell in 2022Q2

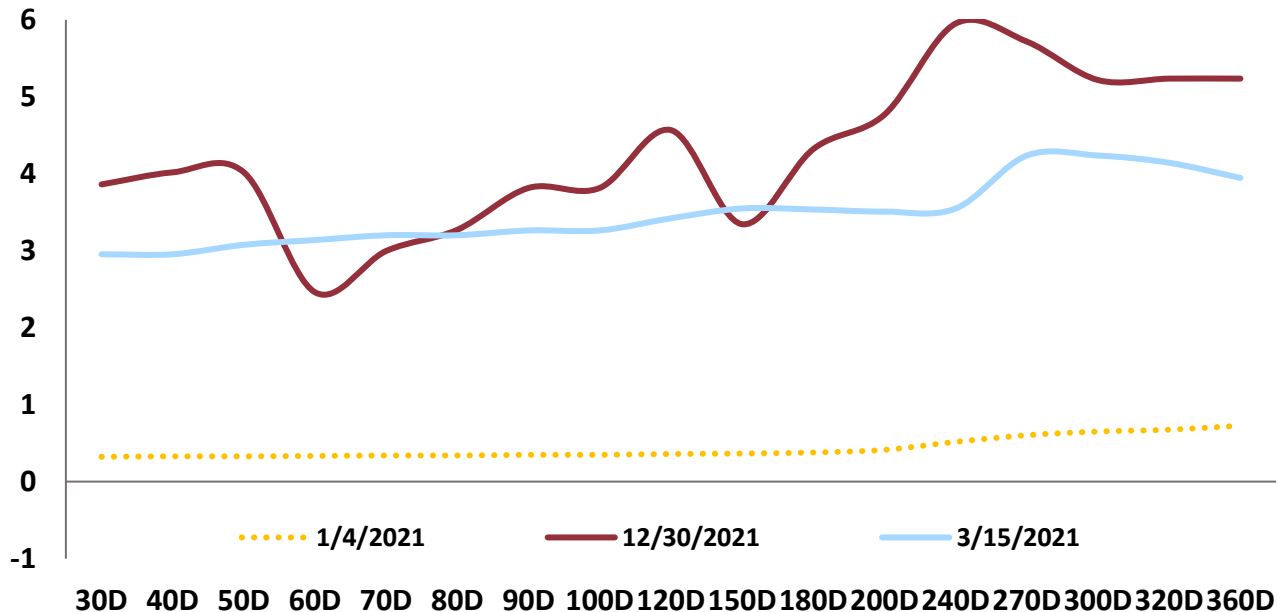
Average Yields in Nigerian Treasury Bills Market

0.46%
(04/1/2021)

4.43%
(30/12/2021)

3.49%
(15/03/2022)

NT Bill Yield Curves (%)



- The Treasury Bills market rode on the expanded system liquidity brought about by maturities of over N2.25 trillion as NTB yields declined in 2022Q1.
- Average yield in the Treasury Bills market in 2022Q1 stood at 3.49%, a 94 basis point yield contraction from 4.43% at the beginning of the quarter.
- While yields are declining in the NT-Bills market, the government has so far borrowed a total of N1.16 trillion from the Treasury Bills auctions.
- Due to the low yield environment, the total turnover on Treasury Bills trade contracted with a significant share of activities executed in the Primary Market. With this, there is, perhaps, a risk of capital flight, especially as yields are now picking up in developed countries.

Yields in OMO market trended downward in 2022Q1

Average Yields in CBN OMO Market (%)

0.57%

(04/1/2021)

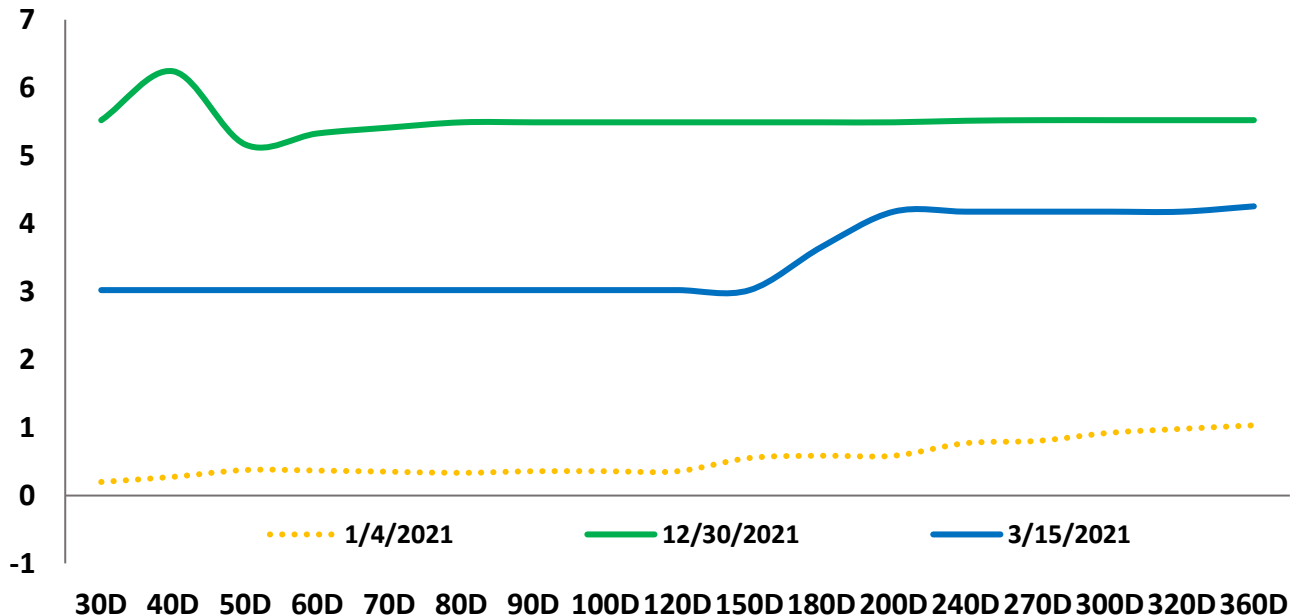
5.50%

(30/12/2021)

3.81%

(15/03/2022)

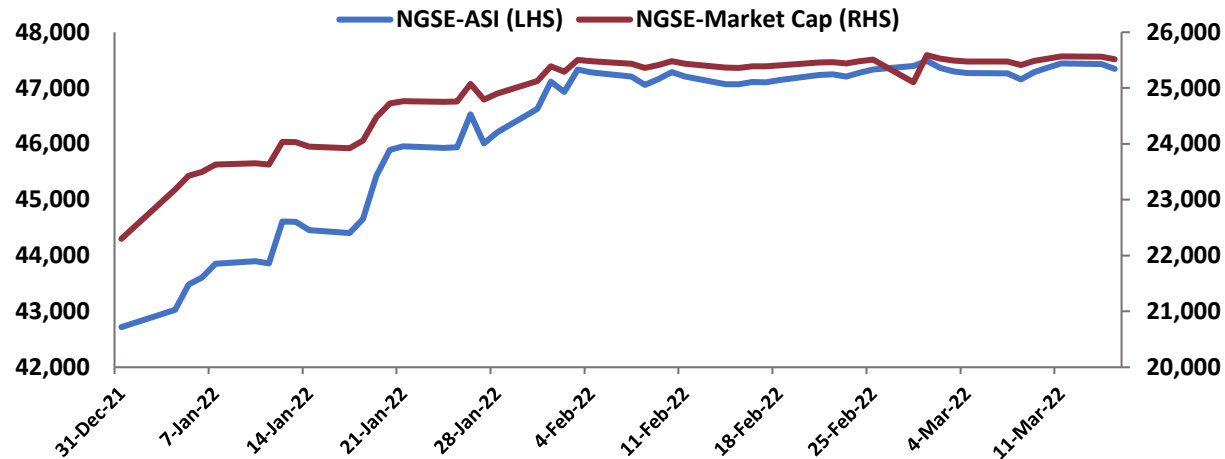
CBN OMO Yield Curves (%)



- Yields on the CBN Open Market Operation (OMO) Bills has been declining so far in 2022 as the CBN conducted OMO Auctions on each week since the beginning of 2022.
- The average yield in the OMO market stood at 3.81% (Mar 15), a 169 basis point increase from 5.5% at the beginning of the year.
- The declining OMO yields were also motivated by the expansion in the system liquidity, notably as OMO maturities account for over 55% of maturities in 2022Q1.

The equity market is on the gaining side, reaps from the low yield fixed income market

NGSE - ASI (Index Points) vs NGSE – Market Cap (N'Billion)



Equity Market Indicators

NGX-ASI	2021-FY	2022-Q2*
Open (N'Bn)	40,270.72	42,716.44
Close (N'Bn)	42,716.44	47,340.86
% Change	6.07	10.83
MARKET CAP	2021-FY	2022-Q2*
Open (N'Bn)	21,056.76	22,297.00
Close (N'Bn)	22,297.00	25,514.14
% Change	5.89	14.43

- The Nigerian equity market closed the year 2021 on a positive note, recording a gain of 6.07% and accruing a total of N1.24 trillion to equity investors.
- The NGX-ASI year to date (as at 15th March 2022) recorded a gain of 10.83%, increasing from 42,716.44 index points at the start of the year to 47,340.86 index points.
- This culminated in a 14.43% increase in Market Capitalization and accrued a total of N3.22 trillion to investors within the period.
- The equity market continues to reap from the low yield environment in the fixed income and money markets.

The equity market is on the gaining side, reaps from the low yield fixed income market

Sectoral Performance (%)

SECTORS	2021-FY	2022-Q1*
NSE ASI	6.07	10.83
NSE 30	5.01	5.52
Banking	3.32	10.60
Insurance	4.54	-5.81
Industrial	-2.15	5.41
Oil & Gas	54.38	29.18
Cons. Goods	2.78	-2.96

Performance of Major Market Movers in 2022-Q1*

COMPANIES	2021-FY	2022-Q1*
AIRTEL	12.12	31.94
DANGCEM	4.94	6.42
MTNN	15.95	3.81
BUACEMENT	-13.32	5.52
NESTLE	3.42	-7.81
ZENITHBANK	1.41	6.56
GTCO	-19.63	0.77
SEPLAT	61.57	47.69
STANBIC	-4.66	-4.17
FBNH	59.44	1.75

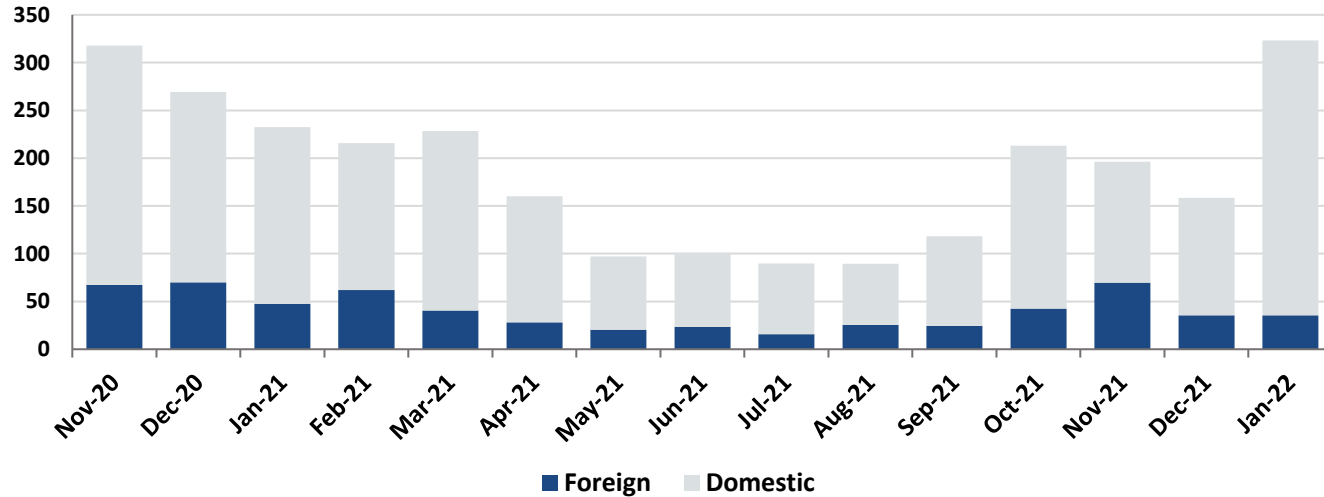
- Gains across many sectoral indices drove the positive performance in the equity market.
- This was largely motivated by expansion in the Banking, Industrial and Oil & Gas sectoral indices that increased by 10.6%, 5.41% and 29.18%, respectively.
- Other sectoral indices on our watch list include the Insurance and Consumer Goods indices, which contracted by 5.81% and 2.96%, respectively.
- The NSE 30 index that tracks the performances of the stocks of top blue chip companies appreciated by 5.52%, outperforming 2020FY gain.
- The major movers on the Nigerian Exchange include AIRTEL and SEPLAT. Both counters reap from their dual listing, making them avenues for capital transfer out of Nigeria. SEPLAT also rides on the global oil price rally.
- Increase in the share price of DANGCEM, MTNN and BUACEMENT, contributed to the gain recorded in the equity market.

Source: Nigerian Exchange

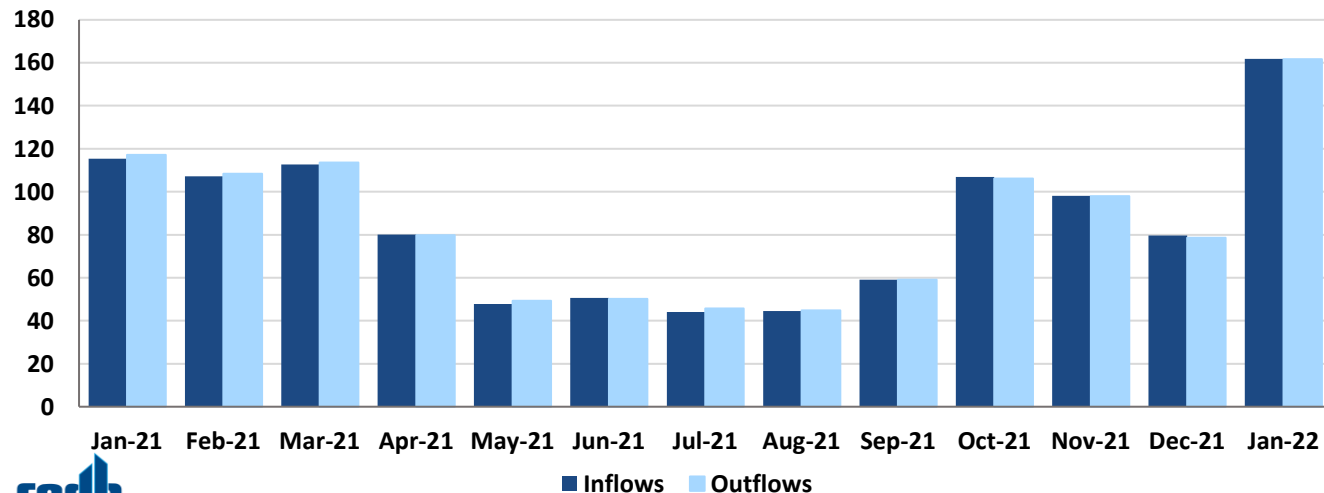
Note: * represents data end at 15th March 2022

Due to low yield environment, market participation on the NGX expanded

NGX Domestic & Foreign Participation (N' Billion)



NGX Investment Flows (N' Billion)

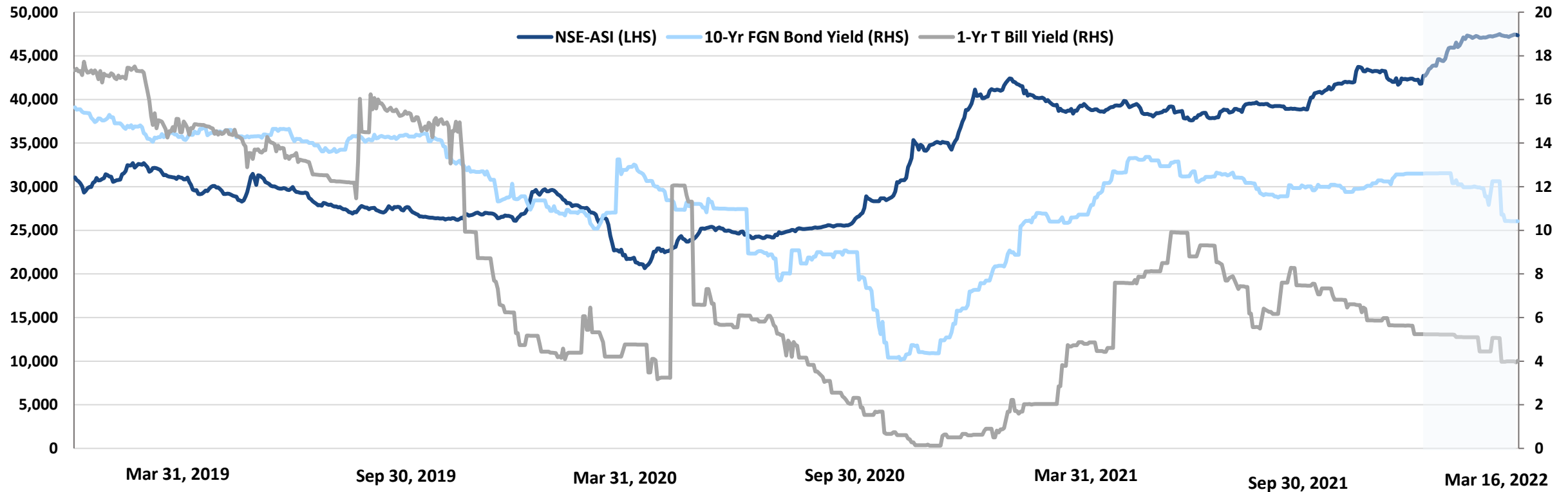


Source: Nigerian Exchange

- While yields trended downward, participation in the equity market kept up the pace in 2022Q1, however, with subdued foreign participation.
- In January 2022, investors' participation in the equity market expanded to N323.38 billion from N158.26 billion in the previous month.
- The apathy of foreign investors towards Nigeria's equity market persists as foreign participation was only 11% of total trade in January and dominated by outflows.
- Domestic investors, on the other hand, continued to dominate Nigeria's equity market with 89% of total trade.

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 continue to ride on the movements in system liquidity following maturities of government securities. While there are concerns about the low yields in Nigeria, the equity market is relieving the pains of investors as share price of some stocks rally.

Capital Market: Analyst View – Outlook and Expectations

Fixed Income Market

- The capital market continues to be driven by system liquidity, with maturities of government securities dictating its trajectory.
- In line with our expectations, the maturity of government securities of N2.24 trillion in 2022Q1 is supporting the system liquidity, resulting in lower yields across the fixed income market.
- With the revision of the 2022 budget to make provision for fuel subsidies, the government is expected to borrow more this year. While the government moves to reduce borrowing cost, yields will pick up going into 2022Q2 and 2022Q3 as borrowing expands.
- The year 2022, being a pre-election year, impacts investors' confidence, especially on short tenor government instruments. Hence, the Treasury Bill market yields could increase as investors buy less or dispose of their holdings.

Equity Market

- The equity market consolidates on the 2021Q4 performance in 2022Q1 as it reaps from the expanded liquidity in the system and declining yields in the fixed income market.
- We expect this trend to continue as major market players in the industrial, banking, and communication sectors turn in impressive results for 2021. This will follow from investors taking investment positions to benefit from improved dividends payments.
- The uncertainty around stock markets around the world due to the impact of the Russia-Ukraine crisis could drive investors towards fixed income instruments.
- In addition, with 2022 being a pre-election year, investors are likely to cautiously participate in the equities market.

The Nigerian Economy in 2022: Action Points for the Federal Government

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 to businesses in sectors that are affected by the Russia-Ukraine crisis – aviation, manufacturing, etc. – to boost growth.



Incentivise production for exports to boost external reserves accretion.



Re-assess the implication of rising fiscal deficit and public debt sustainability on macroeconomic stability.

Address 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.

Food & Energy Security



Provide incentives and support structure including finance to enable the production of strategic food crops such as rice, wheat, maize, etc. in the medium term.



Curtail activities of non-state actors that place levies on businesses. In addition, the government needs to address logistics bottlenecks to reduce transport cost.



Mobilize existing security architecture to address the menace of crude oil theft.



Hasten the development of local refineries to support the production of petroleum products. Where petroleum products are imported, ensure complete deregulation of the import process to limit corruption.



Implement the Petroleum Industry Act.

Ease of Doing Business



Institutionalize the policymaking process and ensure strict compliance by government officials to reduce policy inconsistency.



Ensure infrastructure development leveraging on private capital.



Intensify ports reforms to simplify processes and reduce inefficiencies.



Ensure constant stakeholder engagements in the designing and implementation of policies that affect businesses.



Embark on a massive campaign to improve non-oil export, leveraging on the African Continental Free Trade Area (AfCFTA) agreement.

Macroeconomic Projection for 2022 – 2024

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. Also, the Russia-Ukraine crisis intensifies. Given these, oil price averages US\$80 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 N2.9 trillion) in 2022.

Moderate Case

In this scenario, crude oil price is expected to average US\$73 per barrel. Progress is made in resolving the crisis in Ukraine. 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 averages 1.4 mbpd, below the 2022 budget assumption of 1.8mbpd. In addition, FGN spends N2.1 trillion on capital project, which is a budget implementation rate of ~35%, 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. The Russia-Ukraine crisis is resolved. Crude oil price averages US\$40 per barrel as a result, even as Nigeria's output falls to 1.1 mbpd. Travel bans and restrictions also affect sectors such as transportation, trade, food and accommodation, among others. Government revenue is severely challenged following increasing oil theft and spending on capital project falls to N730 billion in the year.

Macroeconomic Scenario for 2022

Scenario	Assumptions	Outcome
Best Case	<ul style="list-style-type: none"> Oil price rises above US\$80 per barrel Demand for Nigerian crude improves as economies recover- Nigeria produces 1.9 million barrels per day Government capital spending at N2.9 trillion Full implementation of sectoral support interventions 	<ul style="list-style-type: none"> GDP Growth at 3.5% Inflation Rate at 14.5% External Reserves at US\$42bn Exchange Rate at N411/US\$
Moderate Case	<ul style="list-style-type: none"> Oil price averages US\$73 per barrel Crude oil production at 1.4 million barrels per day Government capital spending at N2.1 trillion Implementation of sectoral support interventions 	<ul style="list-style-type: none"> GDP Growth at 2.3% Inflation Rate at 15.9% External Reserves at US\$37 billion Average Exchange Rate at N430/US\$
Worst Case	<ul style="list-style-type: none"> Oil price averages US\$40 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 N730 billion 	<ul style="list-style-type: none"> GDP Growth at -0.7% Inflation Rate at 17.1% External Reserves at US\$29.3 billion Exchange Rate at N462/US\$

Projection for 2022 – 2024 for Nigeria

	2021	2022f*	2023f*	2024f*
Real GDP Growth	3.4%	2.3%	2.9%	3.0%
Inflation rate	17%	15.9%	15.2%	14.5%
Average Exchange rate (N/US\$)	410.0	430	450	450
Monetary Policy Rate	11.5%	12%	12.5%	12%
External Reserves (Average, US\$ Billion)	35.8	37.0	35.3	38.0
Treasury Bill (90 Days)	3.7%	3.2%	4.1%	4.4%
Treasury Bill (180 Days)	5.2%	3.9%	4.7%	5.3%
Treasury Bill (270 Days)	6.2%	5.9%	6.0%	6.2%
Treasury Bill (360 Days)	6.4%	5.6%	7.2%	7.4%

**Please note that there is still a high degree of uncertainty. Actual figures could exceed or fall below these forecasts. A lot depends on the impact of the Russia-Ukraine crisis, the path of COVID-19 and its variant, vaccine effectiveness, oil price movement and disruptions in the local economy.*

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