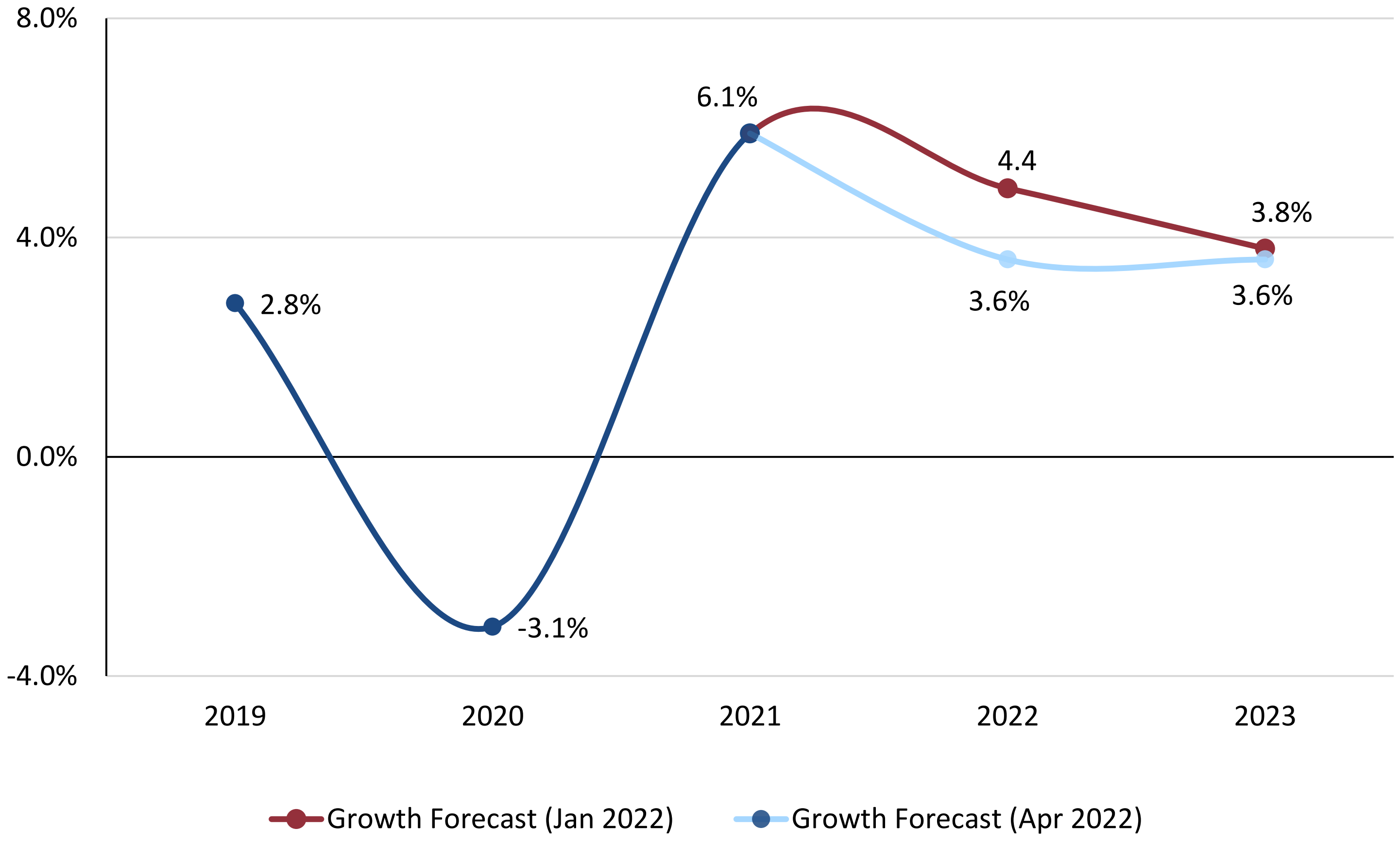
MACROECONOMIC REVIEW AND OUTLOOK FOR NIGERIA

Global Uncertainty, Domestic Constraints threaten Nigeria's Economic Recovery

April 2022

IMF downgrades global GDP growth for 2022 to 3.6% in its latest forecast

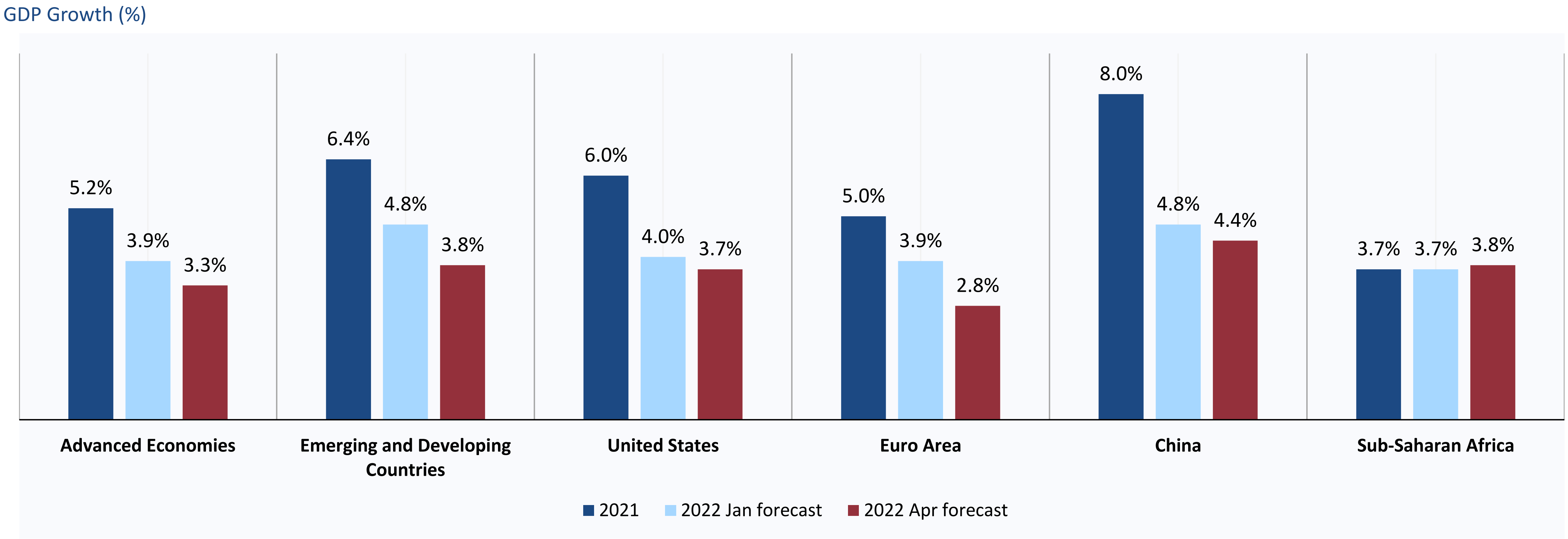
Global GDP Growth (%)



Data Source: International Monetary Fund (IMF)

- According to recent data released by the IMF in April 2022, global economic output is expected to grow by 3.6% in 2022.
- The IMF's recent estimate of 3.6% is lower than the previous projection of 4.4% in its January 2022 forecast.
- Lower growth prospect in 2022 reflects the impact of the crisis in Ukraine, which has triggered a humanitarian crisis in Eastern Europe as well as global inflation.
- According to the IMF, supply shocks and rising commodity and food prices following sanctions on Russia have resulted in shortages in the energy and agricultural sectors. This will hurt lower-income households globally and add pressure on aggregate demand in 2022.
- GDP growth for 2023 is forecasted at 3.6%.

GDP growth downgraded in major regions across the world, except sub-Saharan Africa

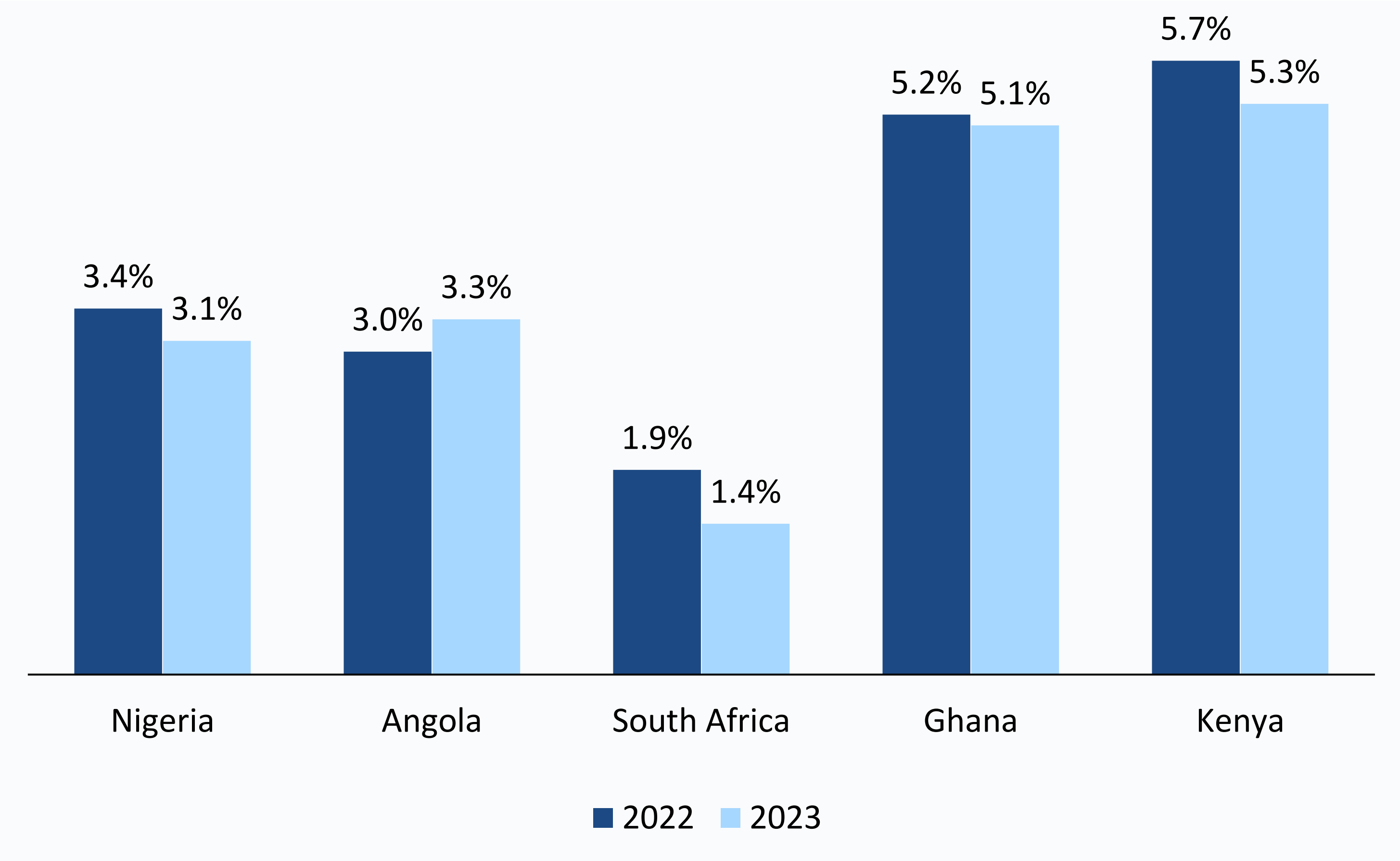


- Following the crisis in Ukraine, the IMF downgraded growth across several regions and countries (see chart).
- In sub-Saharan Africa, however, growth forecast for 2022 was upgraded from 3.7% to 3.8%.
- The IMF expects resource dependent countries in SSA to benefit from rising commodity prices which will, in turn, improve growth prospects.

Data Source: International Monetary Fund (IMF)

Sub-Saharan Africa is expected to grow by 3.8% in 2022

GDP Growth (%)

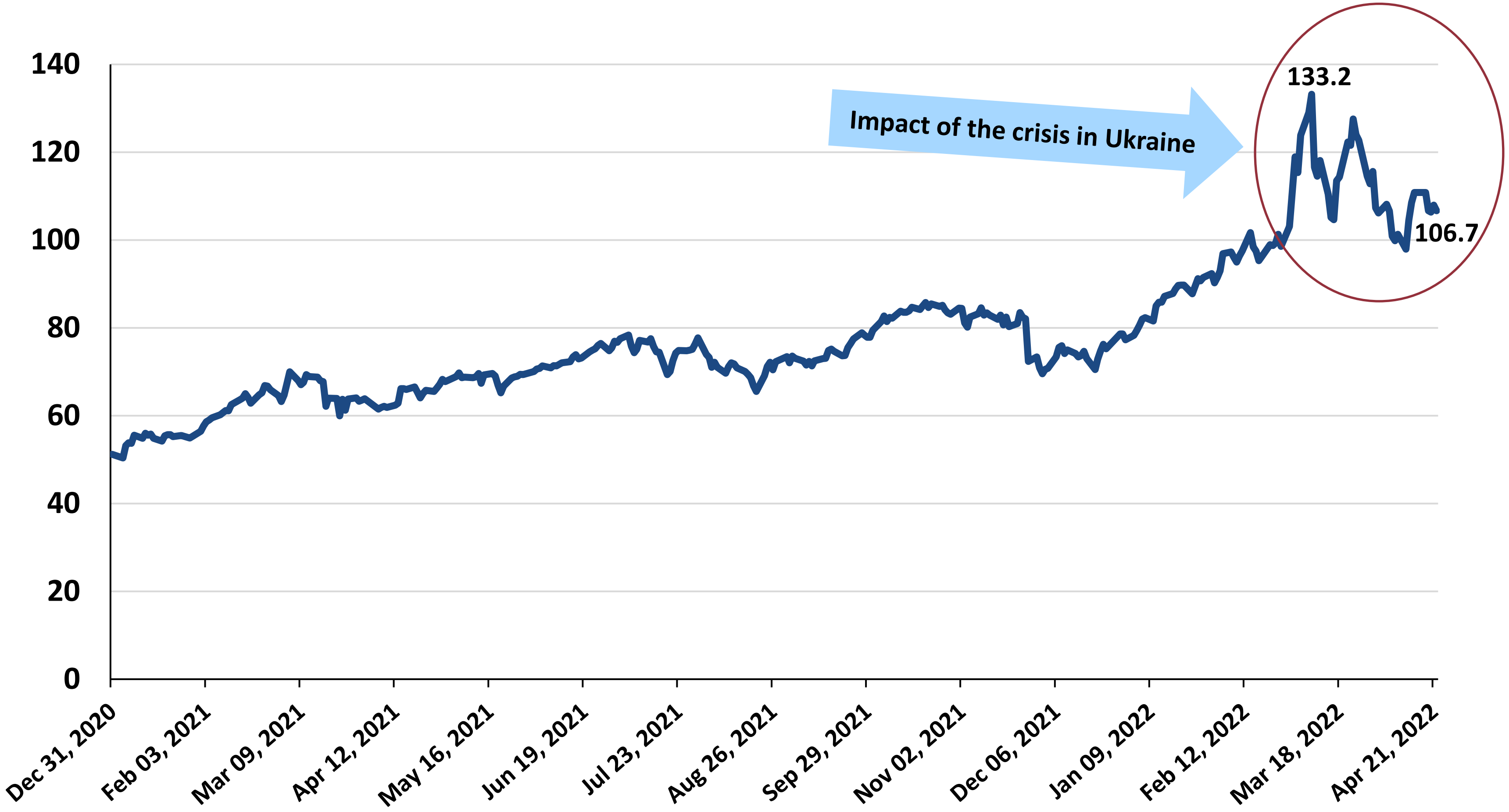


Data Source: International Monetary Fund (IMF)

- In sub-Saharan Africa, the crisis in Ukraine is expected to have both positive and negative effects for countries in the region.
- Higher food prices due to shortages of key commodities such as wheat, fertilizer etc. will reduce the purchasing power for low income household and subsequently affect economic growth.
- In West Africa, the IMF notes that social and political turmoil will also weigh on growth.
- However, high crude oil prices will positively impact oil exporters in the region. The Fund estimates that Nigeria, for instance, will experience a growth of 3.4% in 2022, higher than previously estimated growth of 2.7%.
- We believe that this outlook for Nigeria is optimistic, especially given the impact of fuel subsidy costs associated with high oil price.

Oil price fluctuates since reaching a peak of US$133.2pb in March

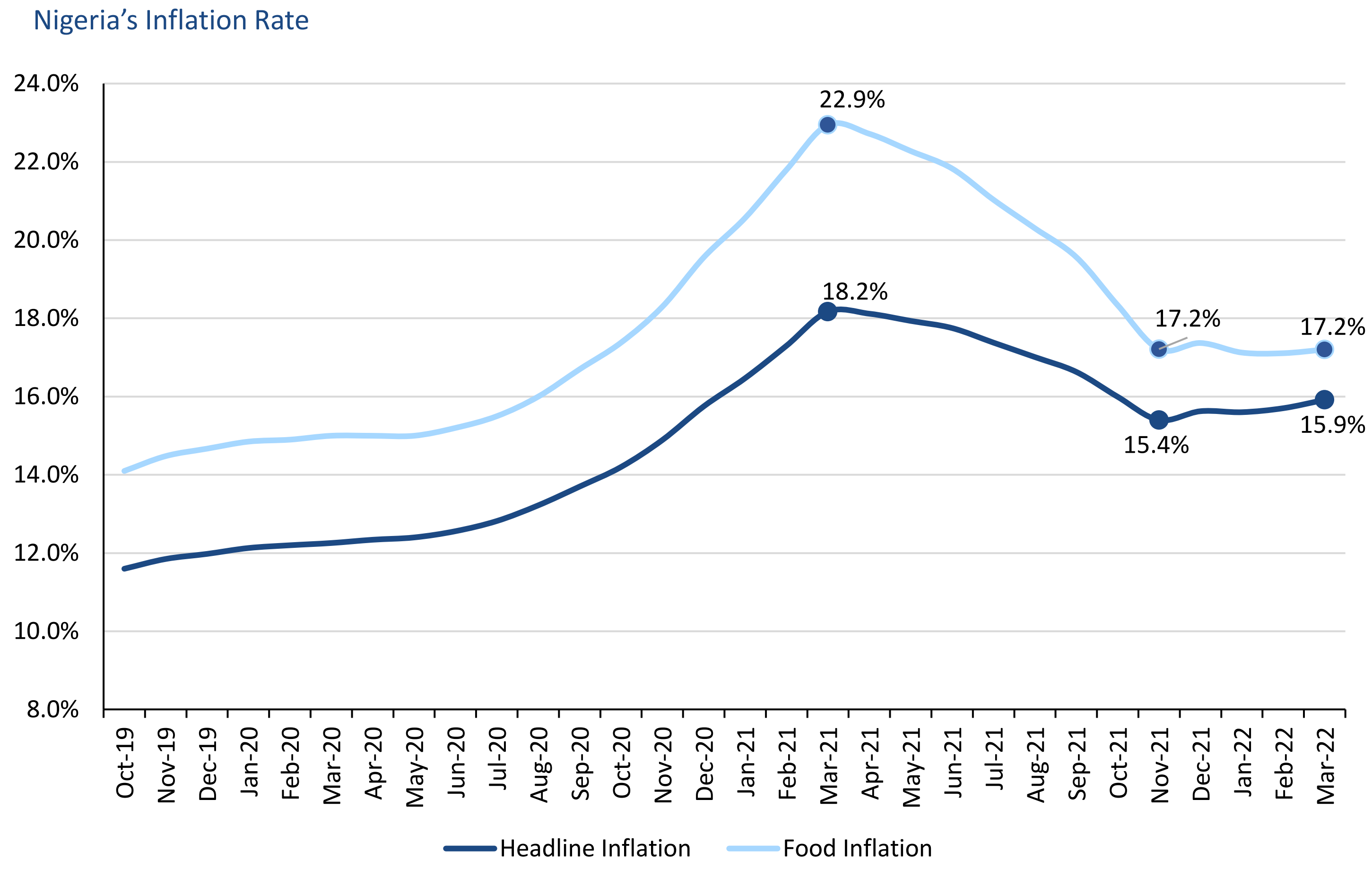
Europe Brent Spot Price FOB (US Dollars Per Barrel)



Data Source: U.S. Energy Information Administration

- As a result of the crisis in Ukraine, crude oil price peaked at US$133 per barrel (pb) on March 8 and has fluctuated since then.
- As at April 22, brent crude oil price was US$106.7 pb, representing a year to date average of US$101.7pb and a year to date increase of 38%.
- Rising oil prices have triggered global inflation especially in advanced countries, following the increase in fuel and gas prices.
- For oil many exporting countries, higher oil price is expected to lead to improved economic prospects in 2022.
- Sanctions on Russia as well as OPEC+'s influence on oil output will keep price high in the second quarter of 2022.

Nigeria's Inflation rate rose to 15.9% in March 2022



- In the month of March 2022, inflation rate stood at 15.9%. This represents an increase from 15.7% in February 2022 and a decline when compared with 18.2% recorded in March 2021.
- While food inflation rate increased marginally to 17.2% in March 2022 from 17.1% in February 2022, core inflation rate declined to 13.9% in March.
- This marginal increase in food inflation rate occurred despite the impact of the crisis in Ukraine on food prices.
- Inflation in Nigeria is largely supply-side driven with factors such as inadequate infrastructure, electricity outages, supply chain disruption and forex challenges playing key roles in driving up local prices.
- Inflation rate is expected to trend upwards in coming months as the impact of the crisis in Ukraine intensifies, amidst other domestic challenges.

5 categories with the highest percentage price increase from Feb. to March 2022

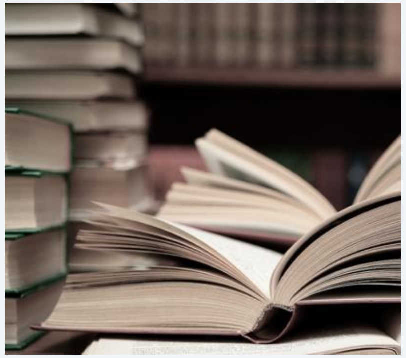
Inflation Rate in March 2022

1. Housing Water, Electricity, Gas and Other Fuel - 12.3%

In the month of March, shortage of gas and high price of other energy products drove prices upward in this category.

2. Alcoholic Bev., Tobacco & Kola 15.0%

High cost of doing business as well as forex challenges are major factors for the significant increase in prices in this category.



3. Education 13.9%

Average prices rose by 13.9% in March 2022, mainly driven by high demand for education services coupled with the increasing cost of doing business.

4. Clothing & Footwear 16.1%

Transportation costs and import bottleneck continue to influence the prices of clothing and footwear in Nigeria.

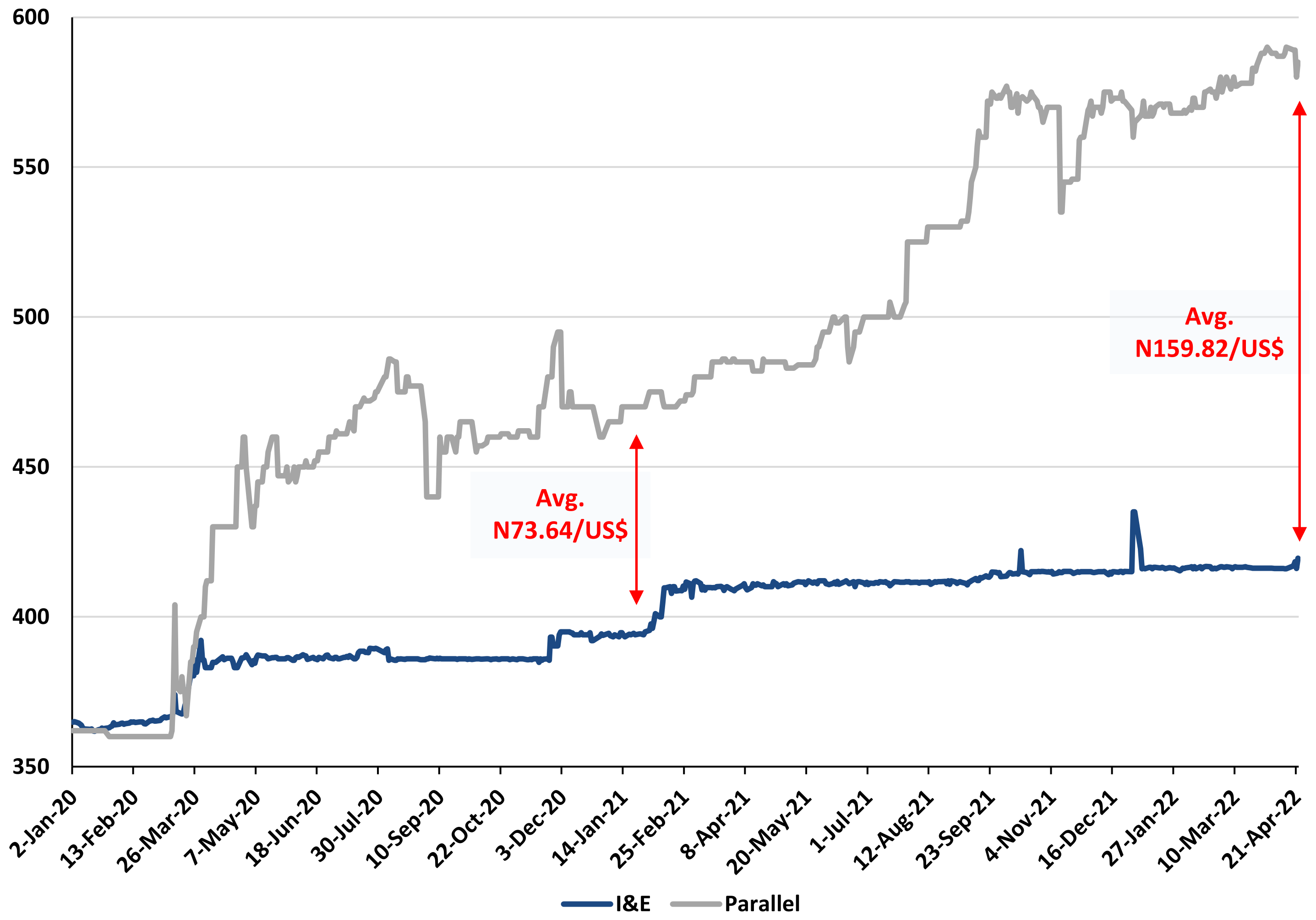
5. Restaurant & Hotels 14.1%

Higher demand for local hospitality services as well as high cost of doing business were responsible for higher prices of hotels and restaurant services.

Data Source: National Bureau of Statistics

Pressure on the Naira persists as the exchange rate premium widens

Nigeria's Exchange Rate (N/US$)



- While the year to date performance of Nigeria's exchange rate on the Investors' & Exporters' (I&E) Window remains on the gaining side, the recent performance suggests increasing pressure on the currency.
- The US$/Naira rate at the end of 2022Q1 appreciated by 4.3% to N416.25/US$ from N435/US$ at the close of 2021Q4. However, the currency depreciated to N419.5/US$ as at April 21, 2022 as a result of limited Forex supply.
- The pressure on the Naira intensified in the parallel market. The exchange rate reached N590/US$ in April and revolved around N585–N590/US$ from N565/US$ at the beginning of 2022.
- The gap/premium between the I&E Window and the parallel market continues to expand. It increased to an average of N159.82/US$ so far in the year, from N73.64/US$ in 2021Q1.

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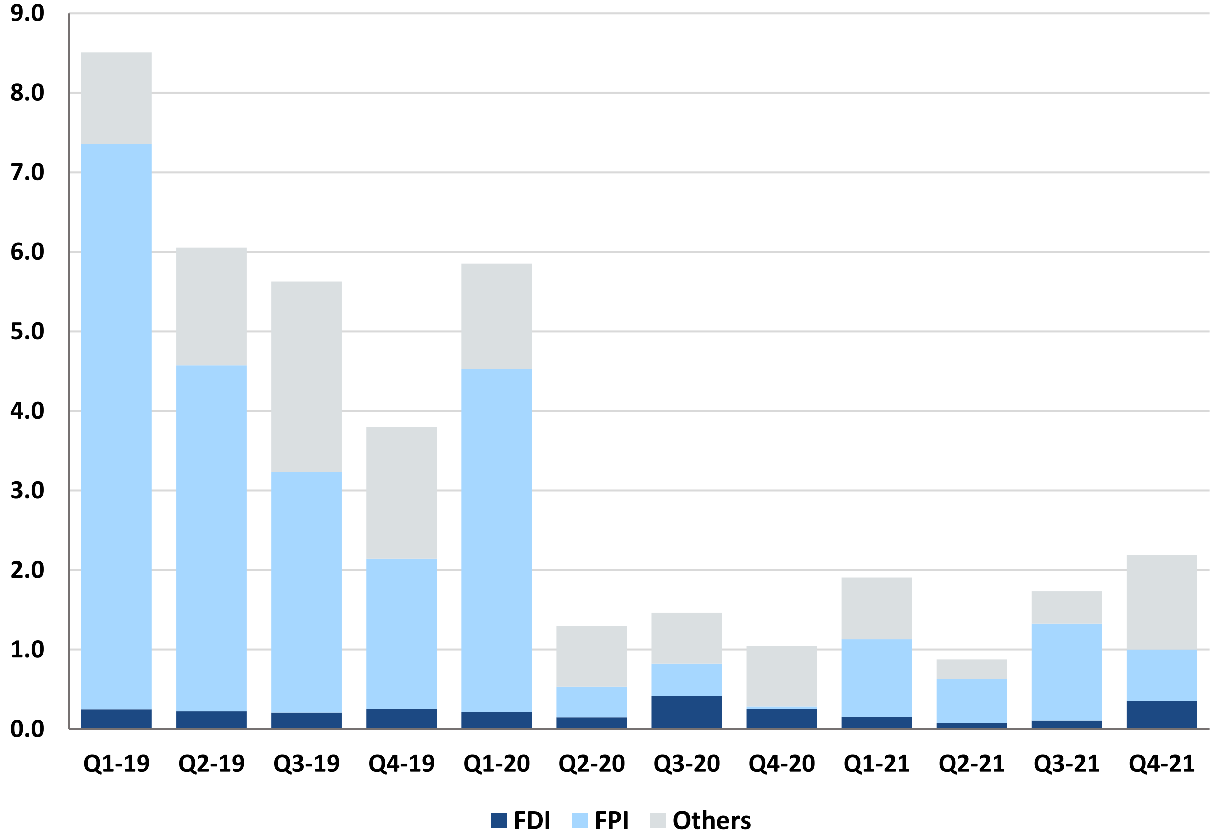
Data Source: FMDQ, (Parallel Market Rate updated from daily reports from Nairametrics)

Foreign Investment inflows into Nigeria totaled US$6.7 billion in 2021

Nigeria's Foreign Investment Inflows (US$ Billion)



- Foreign investment inflows into Nigeria increased by 109.3% in 2021Q4 (year on year) to US$2.19 billion and by 26.35% quarter on quarter.
- This represents the highest quarterly inflow since the start of the COVID-19 pandemic in the first quarter of 2020.
- On an annual basis, foreign investment inflows in 2021 was US$6.7 billion. This is lower than the inflow for 2020 by 30.61%, suggesting that the economy is still experiencing a slow recovery.
- A breakdown of foreign investment inflows showed that Foreign Direct Investment remained subdued in 2021 as it contracted by 32% to US$698.8 million from US$1.03 billion in 2020.
- Likewise, Foreign Portfolio Investment inflows declined by 34.1% to US$3.39 billion from US$5.14 billion in 2020.
- The poor investment inflows into Nigeria reflects the mounting challenges of insecurity, infrastructure deficit and a harsh doing business environment.

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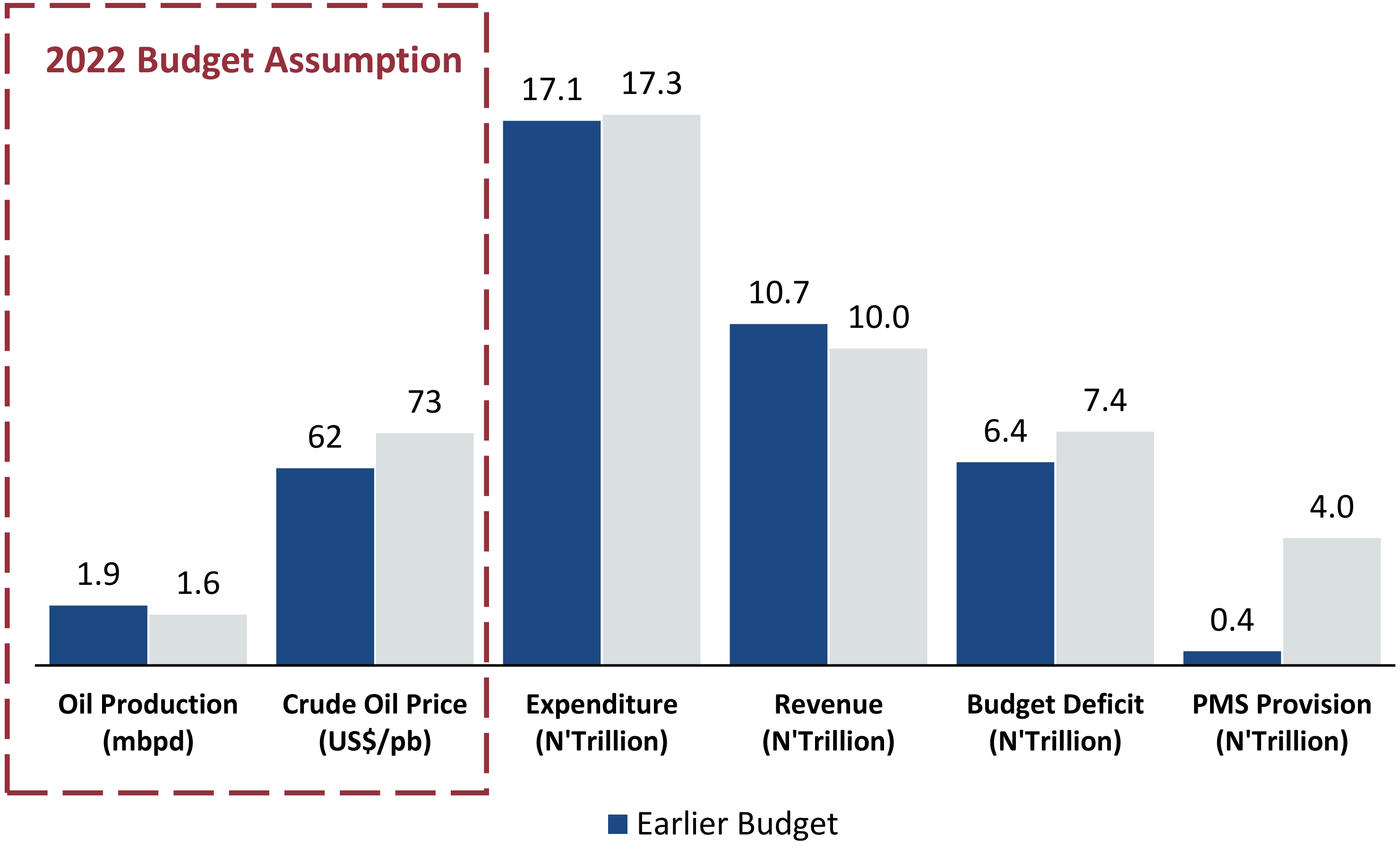
Data Source: National Bureau of Statistics

2022 FGN Budget revised to reflect higher oil price and hike in subsidy payment

Federal Government of Nigeria's 2022 Budget Framework (Initial Budget vs Revised Budget)



Data Source: Budget Office of the Federation

- The Federal Government of Nigeria revised the 2022 Budget as a result of the following developments:
  - Increase in crude oil price due to the Russian-Ukraine war;
  - Constrained and lower oil production due to production shut-down and crude oil theft;
  - Elevated fuel subsidies payment associated with increased crude oil price and the suspension of the removal of fuel subsidy.
- Oil production was revised downward to 1.6mbpd from 1.88mbpd, while oil price was revised upwards to US$73.
- Budget deficit is expected to increase to N7.4 trillion in 2022, following a lower revenue projection and a higher expenditure outlay. The reduction in revenue is partly due to the increased provision for fuel subsidy, which was hiked from N0.44 trillion to N4 trillion.
- This suggests that Nigeria may not benefit from the increase in crude oil price due to high cost of subsidy/petrol imports which will add pressure on government finances and the exchange rate.
- With this, we expect government borrowing as well as Nigeria's total debt stock to trend upwards in 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. 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	• 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	• GDP Growth at 3.5% • Inflation Rate at 14.5% • External Reserves at US$42bn • Exchange Rate at N411/US$
Moderate Case	• 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	• GDP Growth at 2.3% • Inflation Rate at 15.9% • External Reserves at US$37 billion • Average Exchange Rate at N430/US$
Worst Case	• 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	• GDP Growth at -0.7% • Inflation Rate at 17.1% • External Reserves at US$29.3 billion • Exchange Rate at N462/US$

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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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