MACROECONOMIC REVIEW AND OUTLOOK FOR NIGERIA

Navigating through Bumpy Political Season and Tough Economic Headwinds

July 2022

CONTENTS

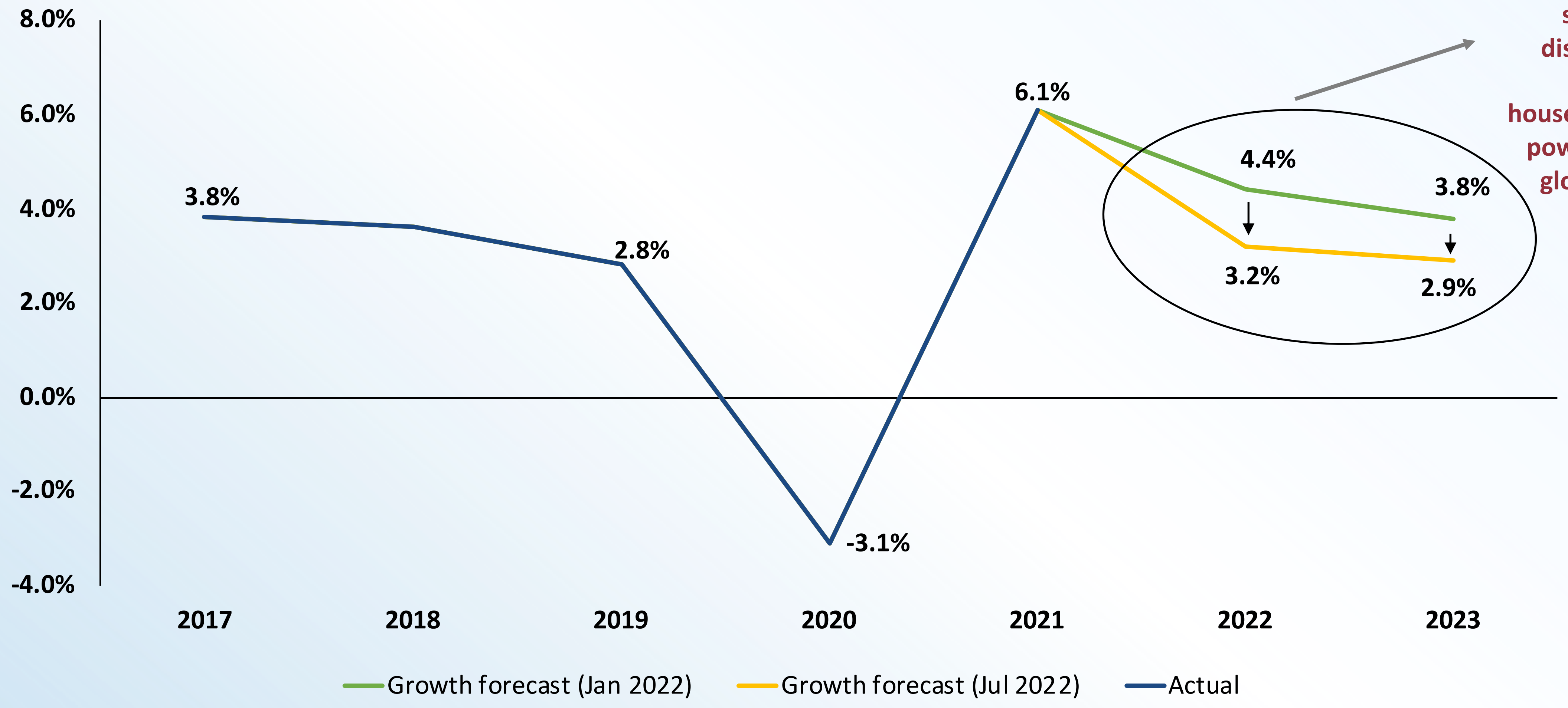
SECTION 01

The Global Economy

fsdh RESEARCH

IMF downgraded global GDP growth following the impact of the war in Ukraine

Global GDP Growth



Rising energy and food prices as well as supply chain disruption place pressure on household purchasing power, dampening global economic outlook.

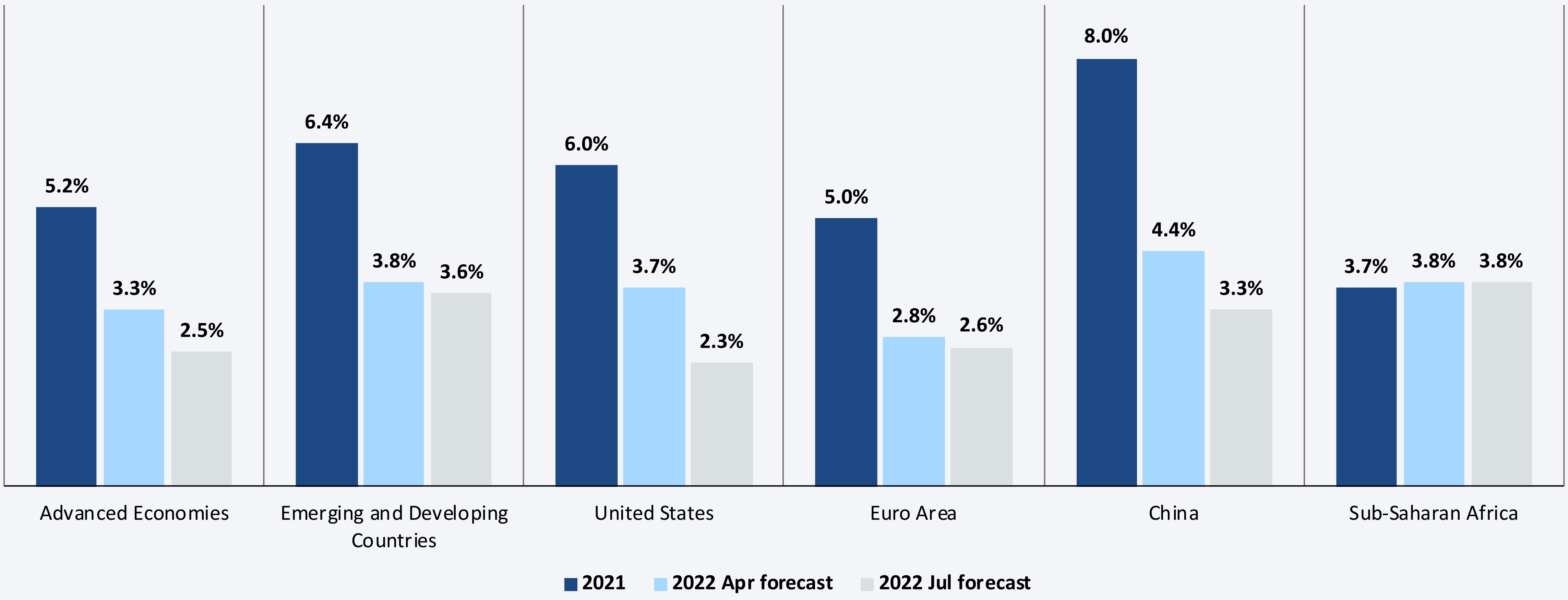
Data Source: International Monetary Fund (IMF)

SECTION 01

Rising inflation and lower purchasing power will result in slower growth across regions

The IMF forecasts lower output growth across many countries and regions. However, growth in Sub-Saharan Africa is expected to improve due to higher commodity prices.

GDP Growth across countries and regions (%)

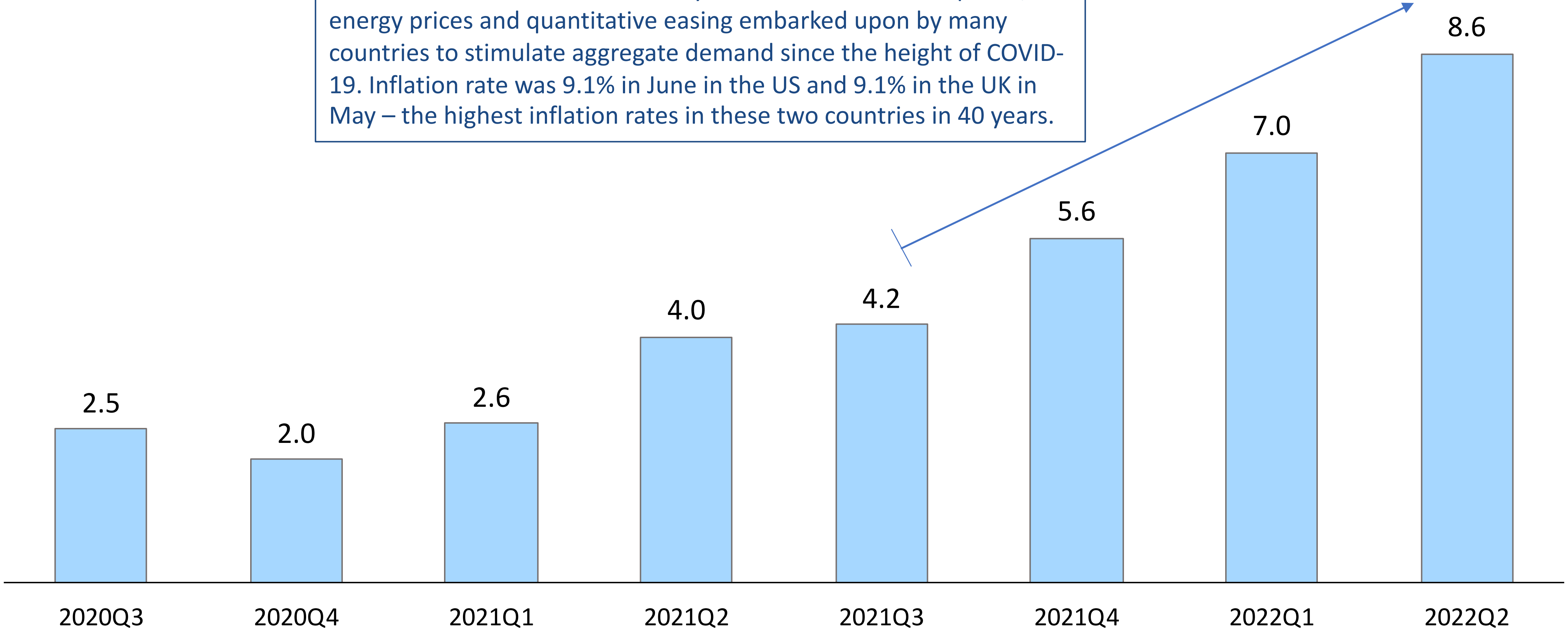


Data Source: International Monetary Fund (IMF)

Global Inflation rate has risen faster creating a downside risk to growth

Global Inflation (%)

Global inflation has been driven by faster increase in food prices, energy prices and quantitative easing embarked upon by many countries to stimulate aggregate demand since the height of COVID-19. Inflation rate was 9.1% in June in the US and 9.1% in the UK in May – the highest inflation rates in these two countries in 40 years.



Data Source: International Monetary Fund (IMF)

To control Inflation, many central banks across the world raised benchmark rates

Policy Interest Rates and Inflation Rates movements across the globe (%)

Country	Policy Interest Rate (%)			Inflation Rate (%)	
	Mar, 2022		July, 2022	Mar, 2022	June, 2022
Switzerland	-0.75	↑	-0.25	2.39	3.39
EU	-0.5	↑	-0.25		
Japan	-0.1	↔	-0.1	1.2	2.42*
Denmark	0.45	↔	0.45	5.37	8.19
Thailand	0.5	↔	0.5	5.73	7.66
Sweden	0.0	↑	0.75	5.97	8.68
UK	0.75	↑	1.25	7.0	9.4
Norway	0.75	↑	1.25	4.54	6.33
Israel	0.1	↑	1.25	3.48	4.44
Australia	0.1	↑	1.35	5.1	-
US	0.5	↑	1.75	8.54	9.06
South Korea	1.25	↑	2.25	4.14	6.05
Saudi Arabia	1.25	↑	2.25	2.0	2.3
Malaysia	2.28	↔	2.28	2.2	2.8*
Canada	0.5	↑	2.5	6.66	8.1

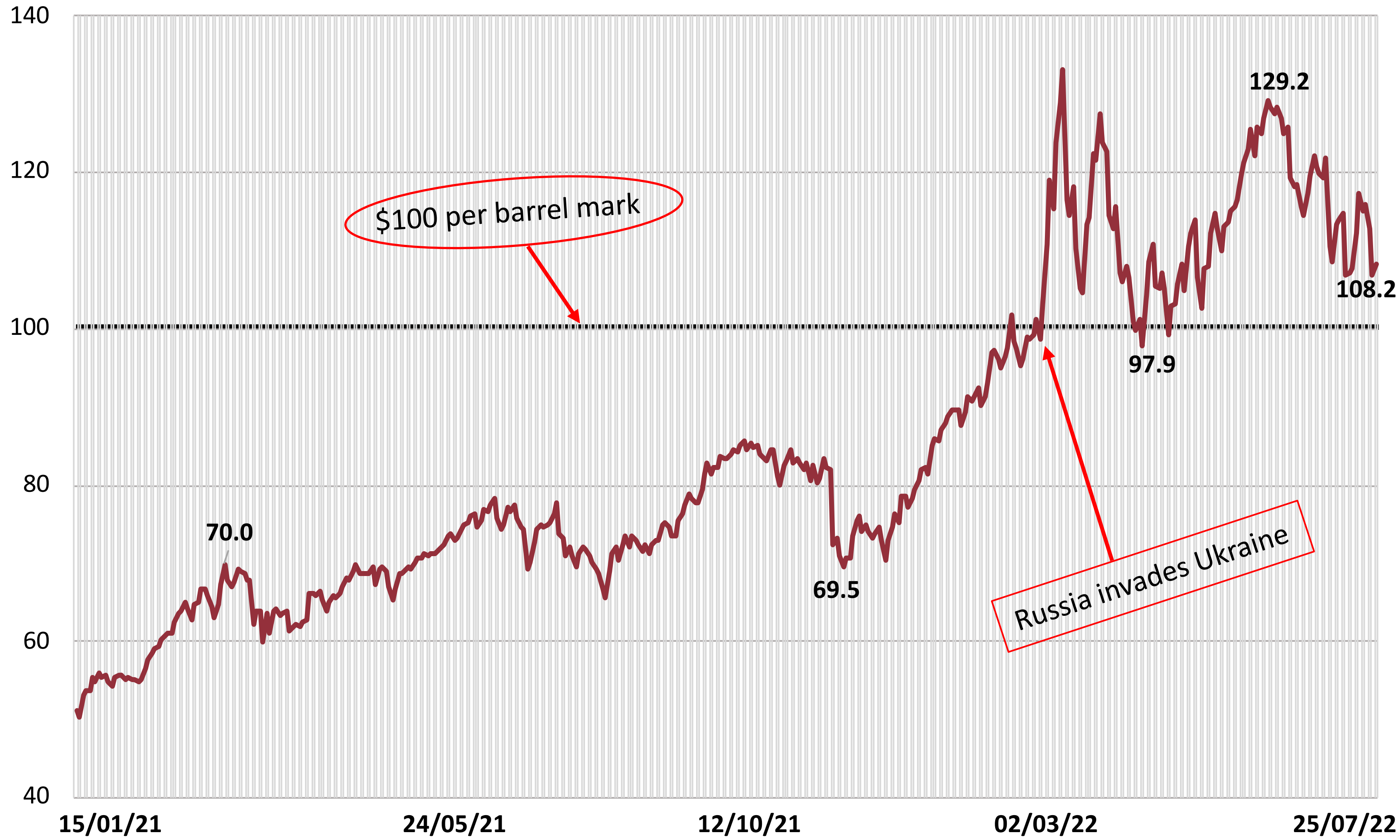
Country	Policy Interest Rate(%)			Inflation Rate (%)	
	Mar, 2022		July, 2022	Mar, 2022	June, 2022
New Zealand	1.0	↑	2.5	6.9	7.3
UAE	1.75	↑	3.0	3.35	-
China	4.05	↓	3.7	1.49	2.5
South Africa	4.25	↑	4.75	5.9	7.4
India	4.0	↑	4.9	6.95	7.01
Indonesia	6.5	↔	6.5	2.64	4.35
Poland	3.5	↑	6.5	10.98	15.57
Czech Rep	5.0	↑	7.0	12.74	17.19
Mexico	6.5	↑	7.75	7.45	7.99
Russia	20.0	↓	9.5	16.7	15.9
Chile	7.0	↑	9.75	9.41	12.49
Hungary	4.4	↑	9.75	8.59	11.67
Brazil	11.75	↑	13.25	11.3	11.89
Turkey	14.0	↔	14.0	61.15	78.62
Argentina	44.5	↑	52.0	55.1	64.0

Data Source: global-rates.com, Central Banks' websites, TradingEconomics, Bloomberg, Reuters

*Note: * indicates figure as at May 2022*

Crude Oil Price trended downwards but remains above US$100 per barrel

Europe Brent Spot Price FOB (US Dollars Per Barrel)



- Despite efforts by the United States to increase the supply of crude oil, oil price remained high at above $100 per barrel for the most part of 2022Q2.
- This high price was also driven by the inability of some oil producers to significantly raise oil output to match global demand.
- While high oil price has provided increased inflow of foreign currency and revenue for some oil exporters, it has triggered inflation across the globe.
- Rising economic uncertainty amidst the war in Ukraine will likely keep oil price high in coming months.

Data Source: U.S. Energy Information Administration

OPEC+ cuts have reduced dramatically as oil exporters increase production

Voluntary Production Level in 1,000 barrels per day (Jan 2022, June and Aug 2022)

		January 2022		June 2022		August 2022	
	Reference Production	Voluntary Adjustment	Required Production	Voluntary Adjustment	Required Production	Voluntary Adjustment	Required Production
Algeria	1057	-85	972	34	1023	2	1055
Angola	1528	-122	1406	48	1480	3	1525
Congo	325	-25	300	10	315	0	325
Eq. Guinea	127	-10	117	4	123	0	127
Gabon	187	-15	172	6	181	1	186
Iraq	4653	-372	4281	144	4509	2	4651
Kuwait	2809	-224	2585	85	2724	-2	2811
Nigeria	1829	-146	1683	57	1772	3	1826
Saudi Arabia	11000	-878	10122	337	10663	-4	11004
UAE	3168	-252	2916	93	3075	-11	3179
OPEC 10	**26683**	**-2129**	**24554**	**819**	**25864**	**-6**	**26689**
Non-OPEC	**17170**	**-1230**	**15940**	**476**	**16694**	**5**	**17165**
OPEC+	**43853**	**-3359**	**40494**	**1295**	**42558**	**-1**	**43854**

Following sanctions placed on Russia, OPEC+ countries increased oil production and exports but this was not sufficient to meet global oil demand.

FSDH RESEARCH

Data Source: Organization of Petroleum Exporting Countries (OPEC)

Analyst Views on the Global Economy

- Following the impact of the war in Ukraine, global output growth is expected to decelerate in 2022. Higher energy prices and rising inflation across advanced and developing countries have weakened the purchasing power of households in many countries. The surging inflation and rising interest rates have triggered recession fears in large economies like the United States and the United Kingdom, which could have a ripple effect on the economies of emerging market, through capital outflows.

- Some oil exporting countries are reaping the gains of higher oil prices. Saudi Arabia, Kuwait, UAE have increased oil output by 579 thousand barrels per day (tbpd), 186 tbpd, and 158 tbpd respectively from 2021Q4 to 2022Q2. Although these countries are not immune to the rising cost of food prices and other commodities, they have attracted significant foreign inflows to dampen the effect on citizens. Recently, Saudi Arabia allocated 20 billion riyals ($5.33 billion) for social insurance beneficiaries while similar programmes have been implement by other countries.

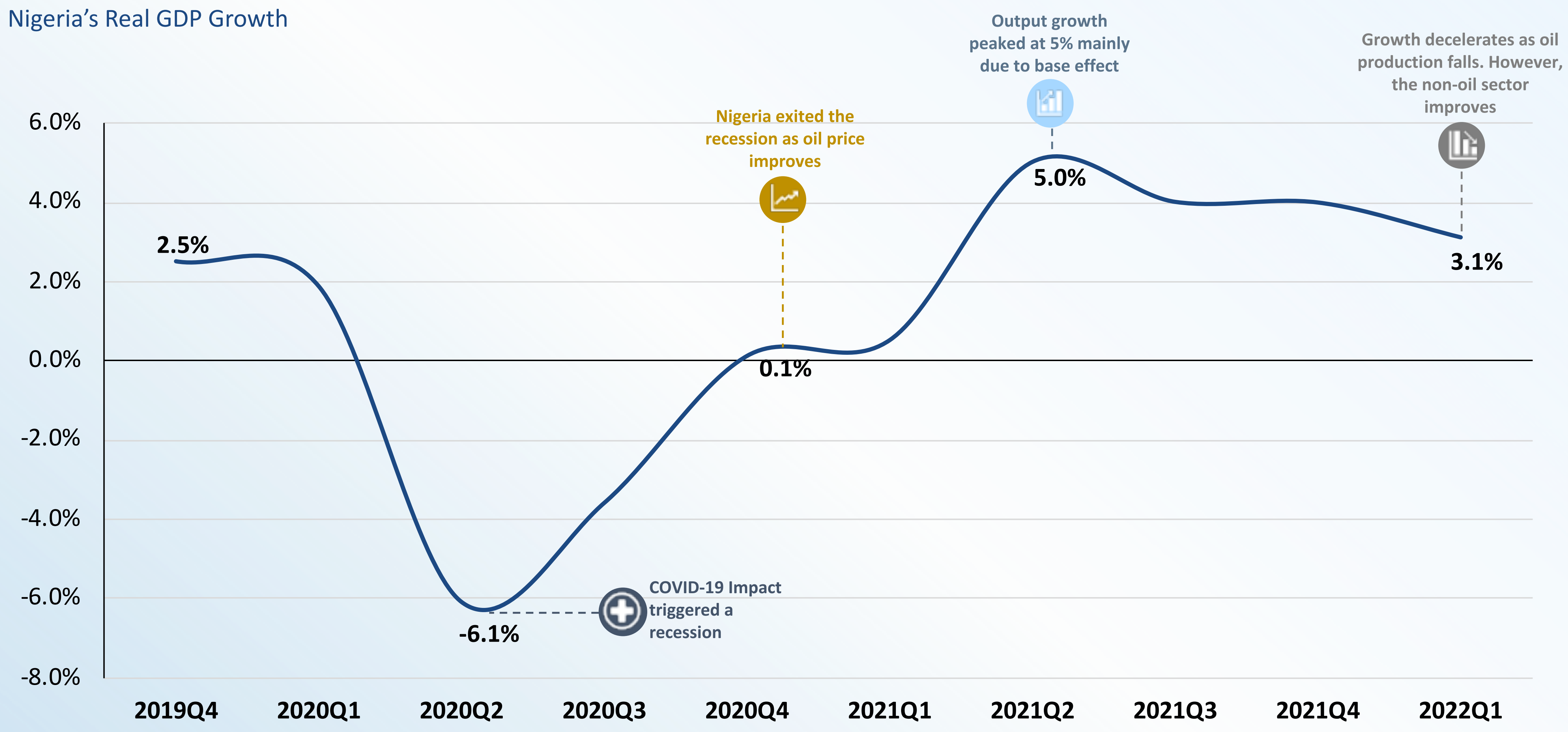
- For oil importing countries, including oil exporting countries that do not have domestic oil refining capabilities, they have struggled with higher petrol prices, which have resulted in higher transport costs and overall cost of production. Pressure on government finances has also resulted in increased fiscal deficits and debt levels across many countries.

- As anticipated in our previous macroeconomic outlook report, the IMF downgraded global growth for 2022 from 4.4% to 3.2% in its latest World Economic Outlook released in July 2022. With the recent fears of a recession in the US and the UK, we expect further downgrade of output growth in 2022.

SECTION 02

Nigeria’s Macroeconomic Environment

Nigeria's GDP Growth at 3.1% in 2022Q1 is the lowest in the last three quarters

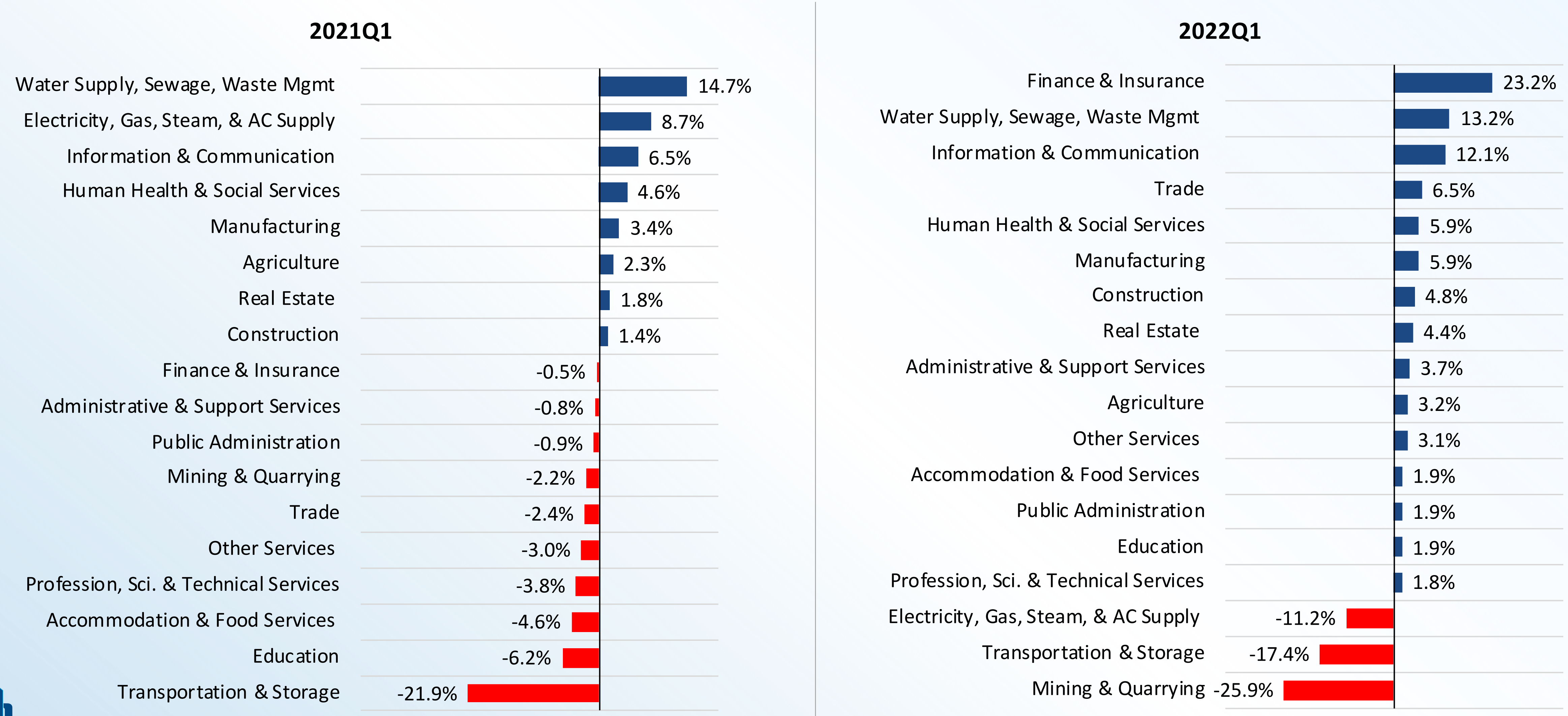


Data Source: National Bureau of Statistics

SECTION 02

The Non-Oil Sector continues to drive GDP Growth

Sectoral Output Growth



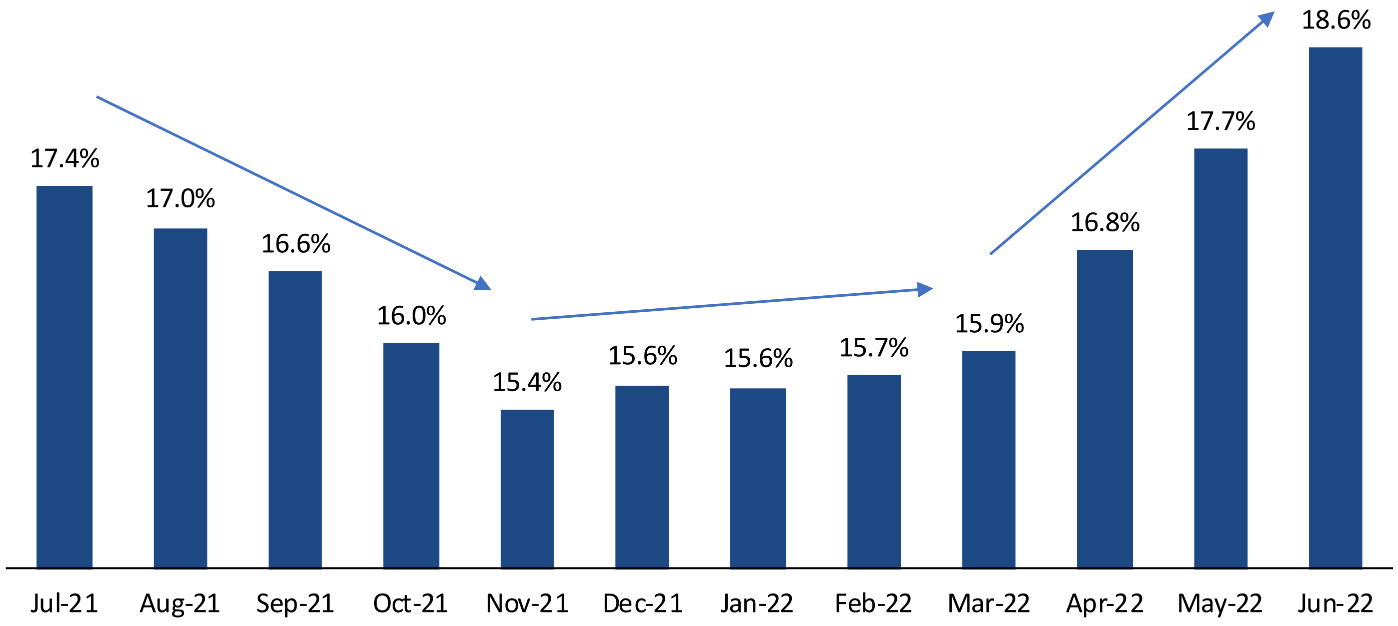
Data Source: National Bureau of Statistics

FSDH RESEARCH

Persistent increase in prices of goods and services weakens consumer purchasing power

In the last few months, Nigeria has experienced a sharp increase in prices of goods and services. This increase is connected to the Russia-Ukraine crises which has resulted in higher cost of inputs – petrol, diesel, aviation fuel as well as exchange rate pressure. Domestic factors such as insecurity, lower productivity, etc., have also influenced prices. Inflation increased to a 5-year high of 18.6% in June 2022 from 17.7% in May 2022.

Nigeria's Inflation Rate (%)



20.6%

Food inflation rate rose to 20.6% in June 2022 driven by rising transport fares, currency depreciation and scarcity of some commodities.

15.8%

Non-food (core) inflation has also trended upwards, mainly as a result of higher input cost and currency depreciation.

Data Source: National Bureau of Statistics

Top 5 categories with the highest increase in Inflation rate (Year on Year Increase)

Inflation Rate in February

Housing Water, Electricity, Gas and Other Fuel – 14.6%

Inflation in this category increased by 4.5 percentage points between June 2021 and June 2022, driven by higher gas and ‘other fuel’ prices.

Alcoholic Bev., Tobacco & Kola – 17.1%

Higher prices in this category are fueled by increased operating costs of firms.

Education 15.5%

Inflation for education services rose to 15.5% in June 2022 as a result of high cost of stationery, maintenance services and general living costs.

Clothing and Footwear – 17.3%

Rising transport cost, import bottlenecks and depreciation of exchange rate drove up prices in this category.

Recreation & Culture – 15.6%

High cost of doing business remains a major factor in the increase in prices in this category.

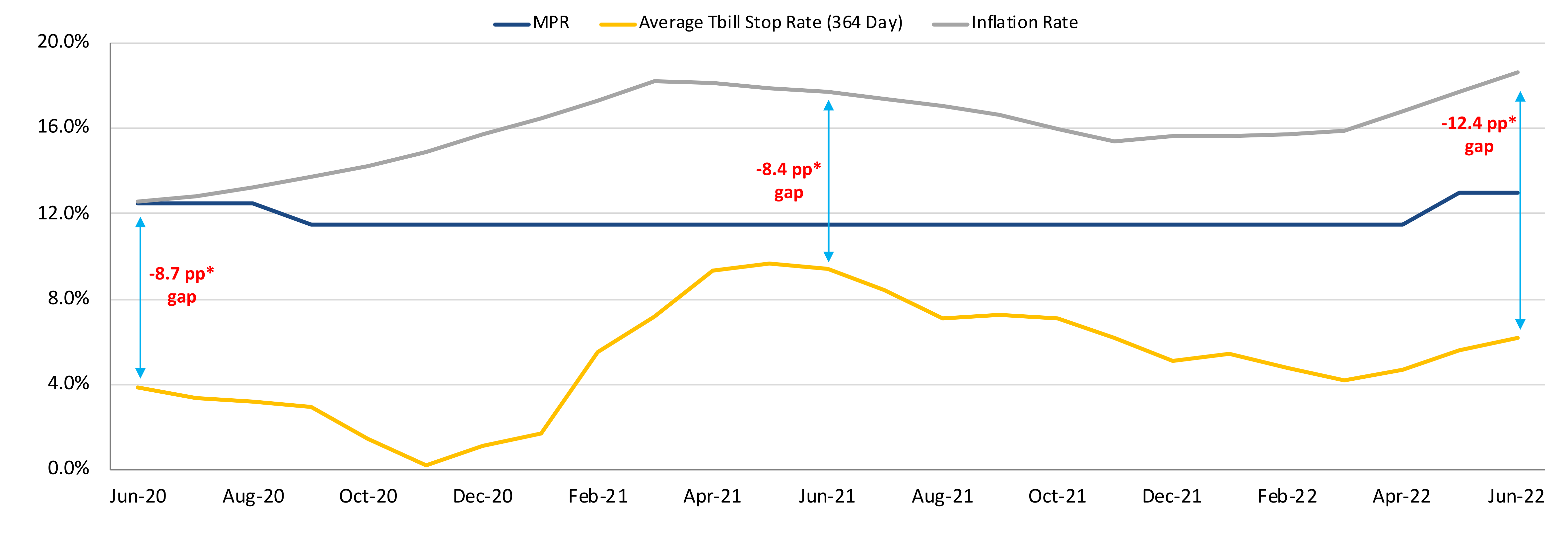
Data Source: National Bureau of Statistics

fsdh RESEARCH

Real interest rate shows the severity of Nigeria's inflation problem

Despite rising interest rates in the last few months, real interest rate remains negative and keeps expanding, due to faster increase in inflation rate.

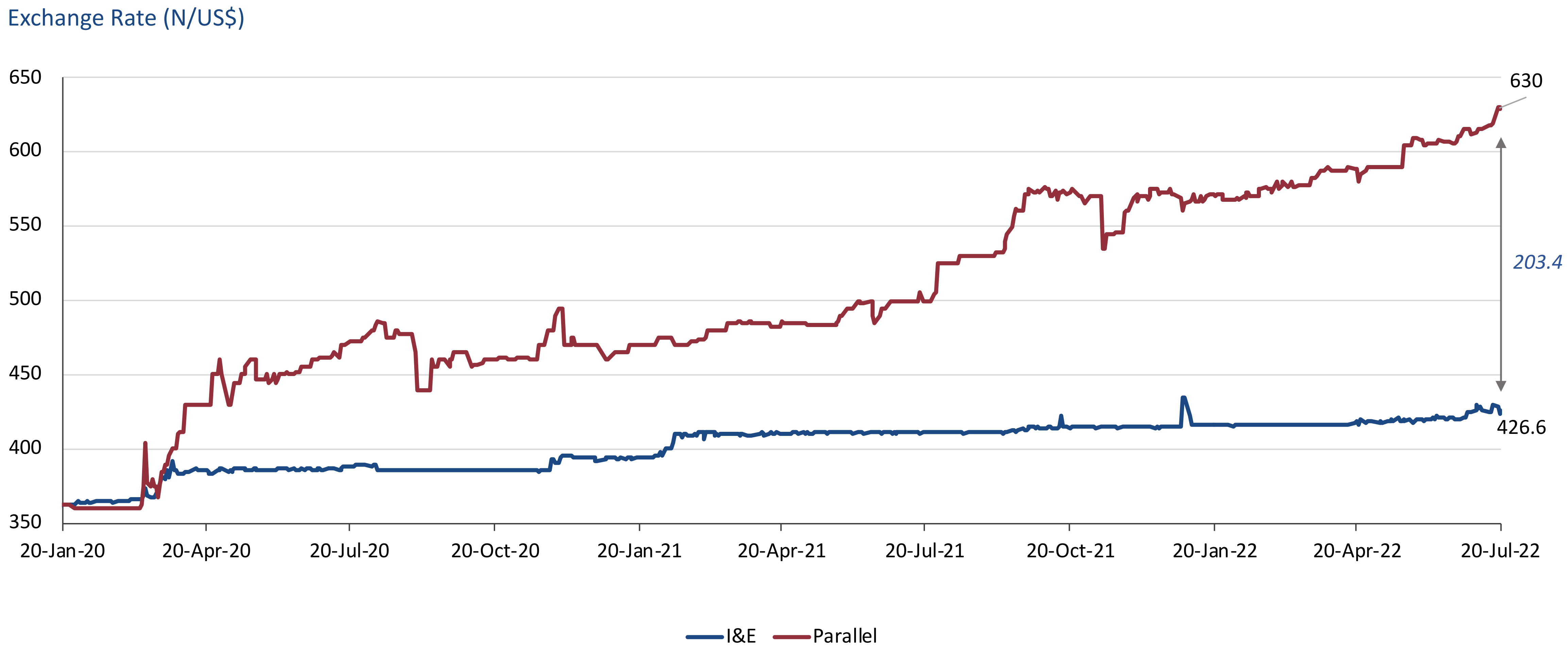
Real Interest Rate: Monetary Policy Rate (MPR), 364-Day Treasury Bill Average Stop Rate vs Inflation Rate



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

***pp - percentage points**

Demand pressure and limited foreign currency inflows triggered depreciation of the Naira, widening exchange rate premium

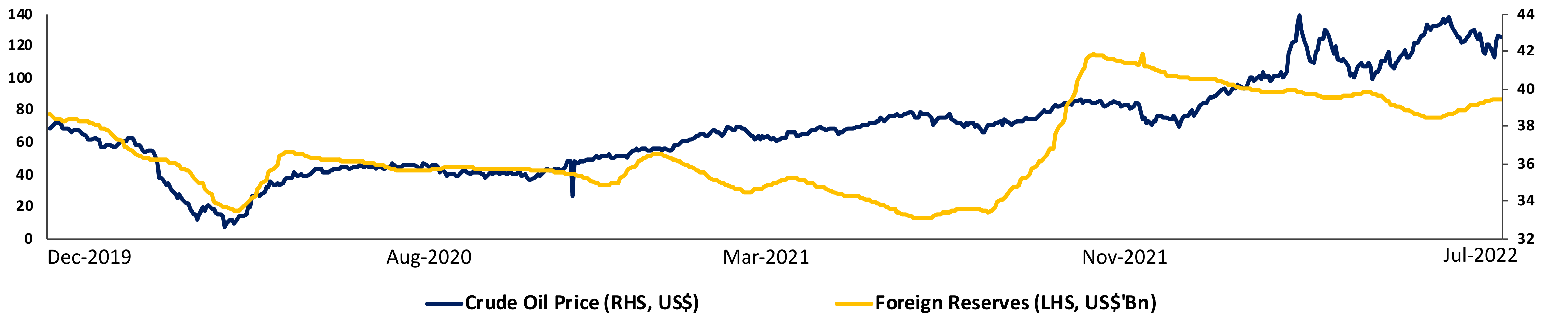


Data Source: Central Bank of Nigeria, Other sources

fsdh RESEARCH

Despite the increase in oil price, external reserves was under pressure in 2022Q2

Crude Oil Price and Nigeria's External Reserves



Pressure on external reserves has been driven by the following factors:

01.

Nigeria's rising import bill and low inflows from non-oil export continue to exert pressure on exchange rate and external reserves.

02.

Crude oil production remains below OPEC quota due to challenges associated with oil theft and limited investment in the oil & gas sector.

03.

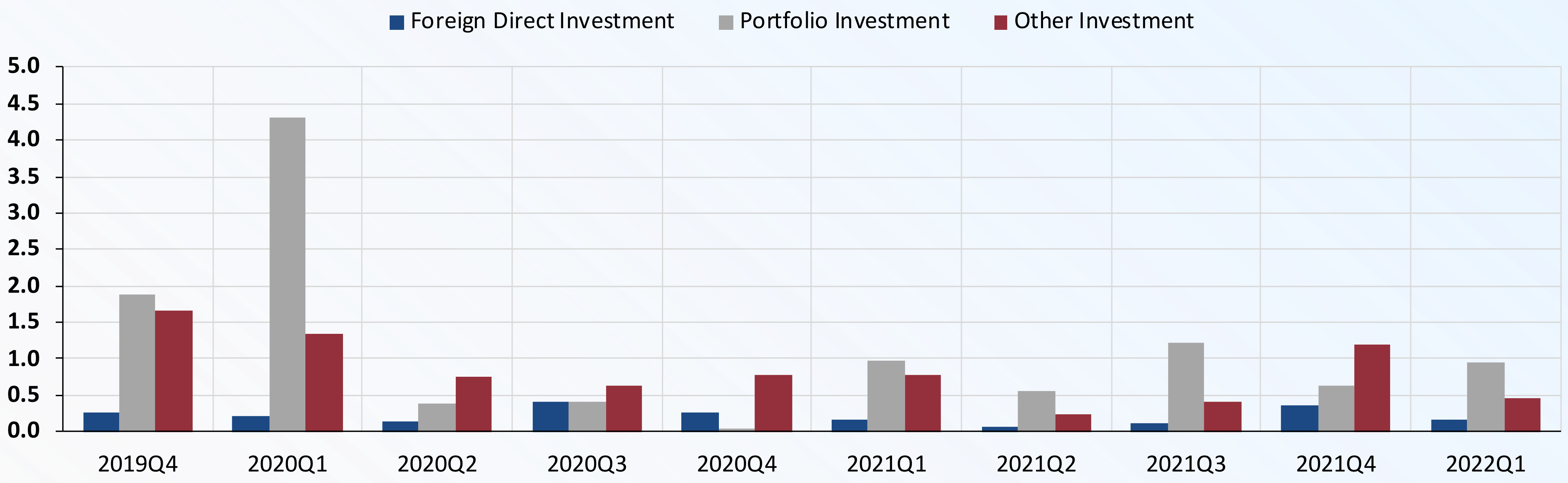
Limited foreign investment inflows and increasing FX demand for services are factors that limited reserve accretion in H1 2022.

fsdh RESEARCH

Data Source: OPECs and Central Bank of Nigeria

Foreign Investment Inflows remain subdued in 2022Q1

Quarterly Foreign Investment Inflow (Billion US$)



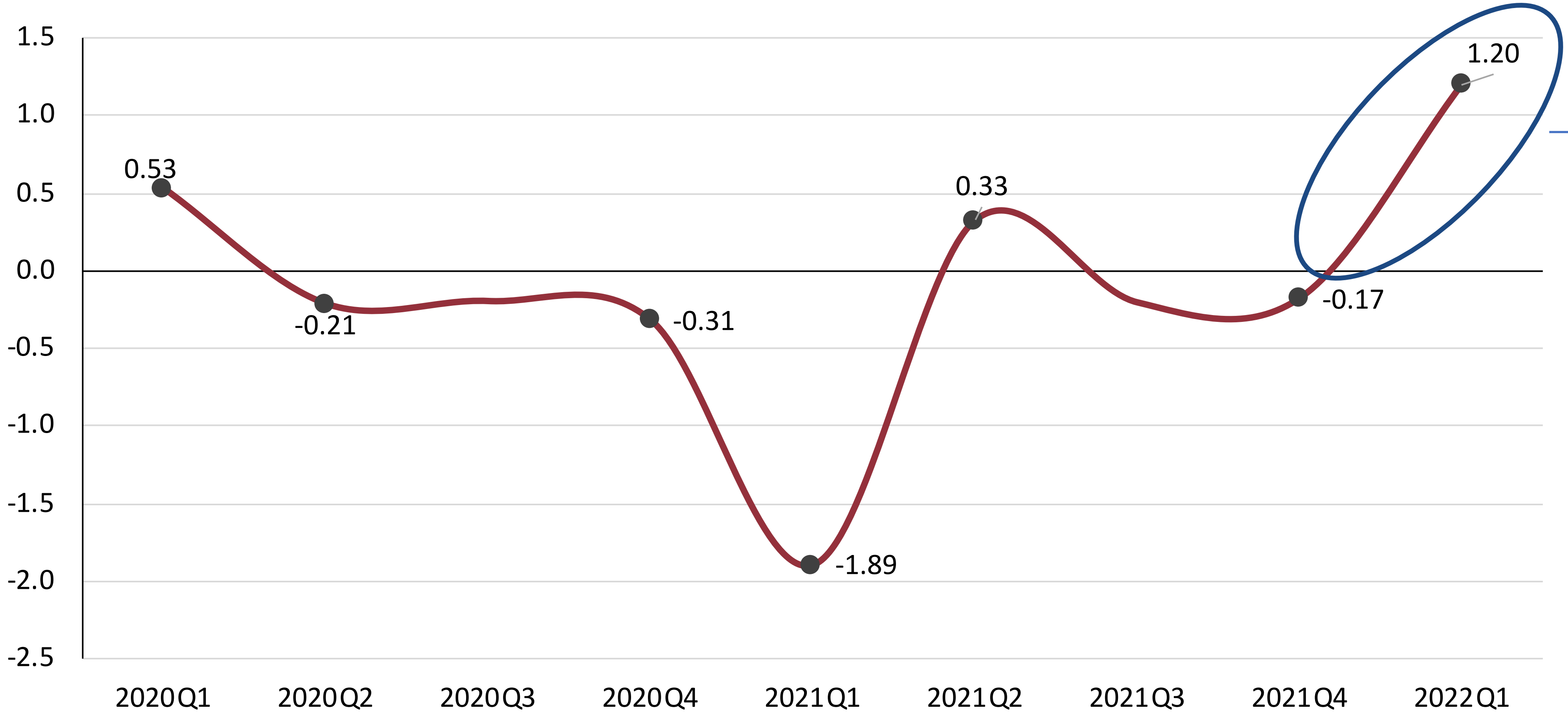
Nigeria's foreign investment inflows stood at US$1.57 billion in the first quarter of 2022. This was 17.5% lower than US$1.9 billion achieved in the first quarter of 2021. The decline in inflows in the quarter was driven by lower portfolio investments and loans from abroad. Clearly, the economy is yet to reach pre-COVID level in terms of foreign investment inflows. Key factors such as a tough business environment and challenges associated with foreign exchange continue to limit investment inflows into Nigeria.

fsdh RESEARCH

Data Source: National Bureau of Statistics

Trade balance became positive owing to slow growth of imports and improved exports value

Nigeria's Trade Balance (Trillion Naira)



Trade balance became positive following a higher increase in the value of exports relative to imports in the quarter.

RESEARCH

Data Source: National Bureau of Statistics

Analyst Views: Outlook on GDP Growth and Inflation

GDP Growth and Inflation

- The Nigerian economy grew by 3.1% in 2022Q1 with growth driven by the non-oil sector. Key sectors such as finance, trade, ICT and manufacturing posted strong output growth while the oil sector weighed down GDP growth in the quarter. Given the decline in oil output in the second quarter of 2022 according to OPEC sources, growth of the oil sector will be negative mainly due to oil theft and limited investments in the oil and gas sector.

- Rising price of fuel, food and other commodities are expected to have a negative effect on GDP growth in coming quarters. In addition, power shortages, infrastructure challenges and insecurity will limit investment inflows and business expansion further dampening growth prospects and will heighten inflationary pressure in 2022.

- At the moment, Nigeria is not reaping from higher oil prices owing to high subsidy payment and lower crude oil production, which threaten government revenue and raise the need to borrow. The government plans to accumulate more borrowing to fund subsidy payments in 2022 which could reach N4 trillion. This will further raise debt level and increase debt servicing costs as a share of revenue, which was 119% in January – April 2022.

- ***In view of these challenges, we believe that GDP will grow by 2.3% in 2022 in our moderate case scenario.***

Analyst Views: Outlook on Foreign Exchange

Foreign Exchange

- The political season is expected to compound the situation especially in relation to the demand for foreign currency. Also, due to the current uncertainty around the economy, there is a growing demand for the dollar to hedge against further depreciation of the Naira.

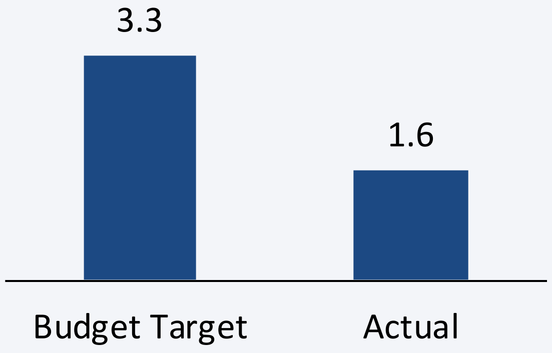
- We recognize some CBN interventions as they show signs of supporting foreign exchange inflows, especially the "Race to US$200 billion in FX Repatriation (RT200 FX Programme)" initiative. But then, the outcomes are far-fetched from matching the demand for foreign exchange. This is because there is still no clear-cut and effective footprint to drive output expansion across sectors for exports.

- With growing uncertainty in the global and domestic market and the challenges facing the oil and gas sector, we anticipate that pressure on the Naira will remain. Our expectation for exchange rate remains at N430/US$ in the official market in 2022.

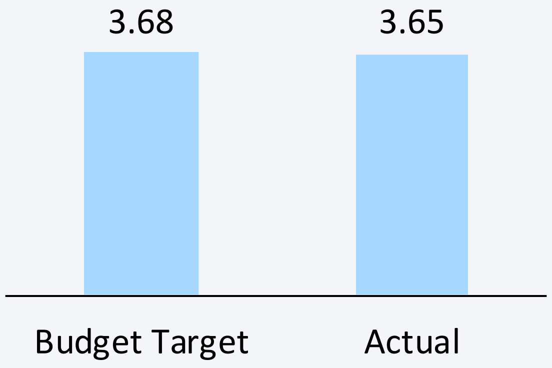
Fiscal and Monetary Update

FGN Revenue and Capital Expenditure maintain trend of underperformance in Jan-Apr 2022

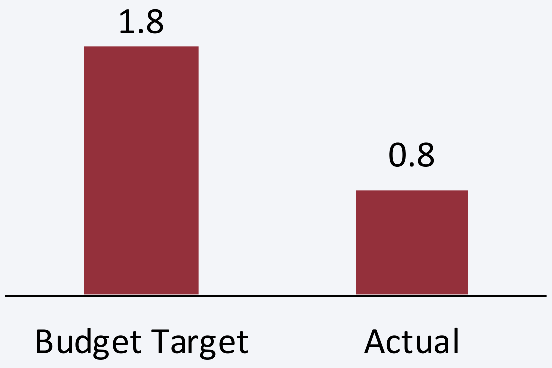
Aggregate FG Revenue (N' trillion)



FG Recurrent Expenditure (N' trillion)



FG Capital Expenditure (N' trillion)



Underperforming revenue

Revenue continues to underperform, and is 51% short of its target of N3.3 trillion in Jan – Apr 2022.

Performance of Rec. Expenditure

Implementation of recurrent expenditure stood at 99.2% (pro-rata) in the first four months of 2022. This represents 77.5% of total expenditure during the period.

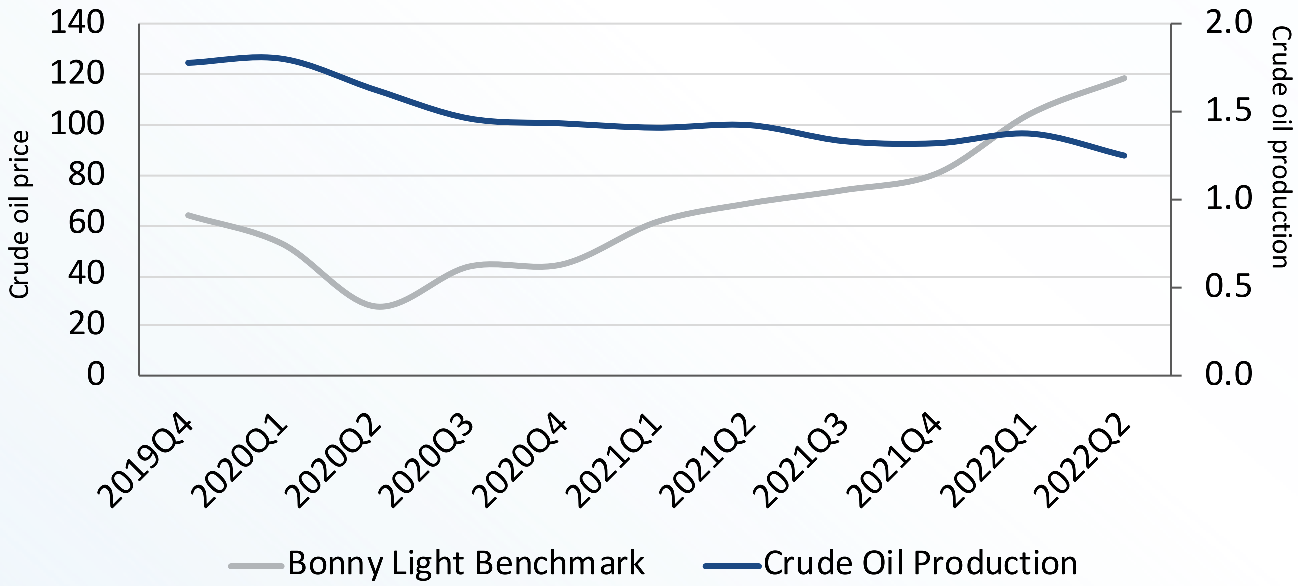
Capital Budget Implementation

From January to April 2022, only 42% of the capital budget (pro-rata) in Nigeria has been implemented. This is 16.4% of total expenditure.

Data Source: Ministry of Finance, Budget and National Planning

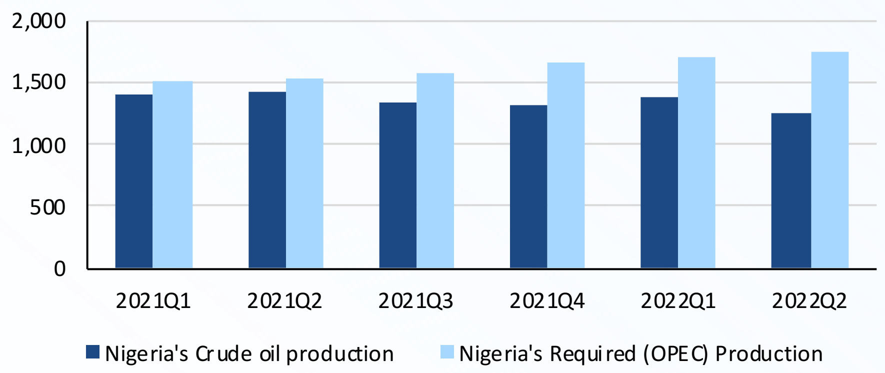
Nigeria fails to meet OPEC quota and cannot reap the gains of high oil price

Oil Price (US$ per barrel) and Oil Production (million barrels per day)



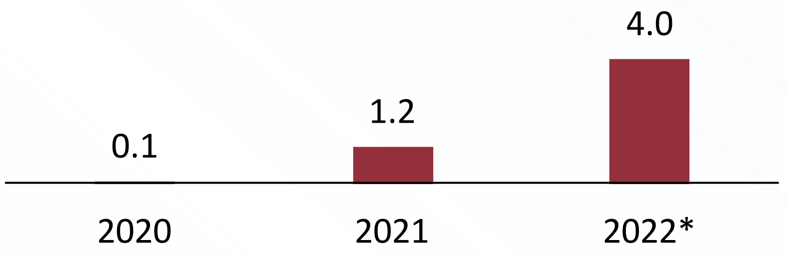
- Despite rising crude oil price, Nigeria's crude oil production has been on a decline, mainly due to oil theft and limited investments.

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



Higher crude oil price and lack of adequate domestic refining have heightened subsidy payments in recent months.

Subsidy Payment in Nigeria (N' trillion)



*Projected figure presented by the Minister of Finance, Budget and National Planning at the Public Consultation on the Draft 2023 – 2025 MTFF/FSP.

Data Source: OPEC, World Bank, Ministry of Finance, Budget and National Planning

fsdh RESEARCH

Nigeria's Debt Servicing from Jan to Apr exceeds Revenue for the first time

In the first four months of 2022, the federal government has spent N620 billion more than it planned on servicing debt. Debt servicing cost accounted for 41% on total expenditure in the period.

19%

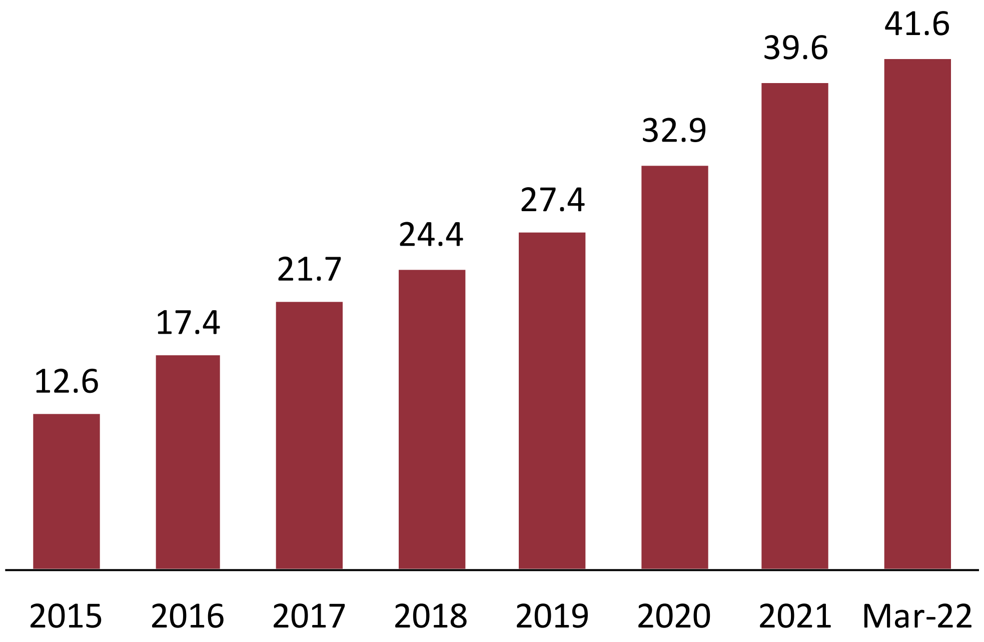
From January to April 2022, Nigeria's debt servicing cost exceeded its revenue by 19%, reflecting the severity of the country's debt and revenue challenges.

N3 trillion

From January to April 2022, Nigeria recorded a budget deficit of N3 trillion. This is already 42% of budgeted deficit for full year 2022.

With an underperforming revenue particularly driven by low crude oil production, total public debt is expected to increase further in 2022.

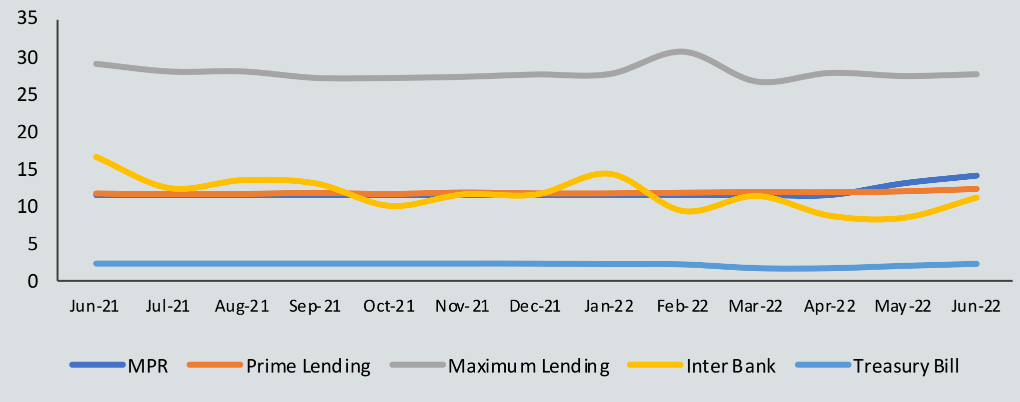
Nigeria's total Public Debt Stock (Trillion Naira)



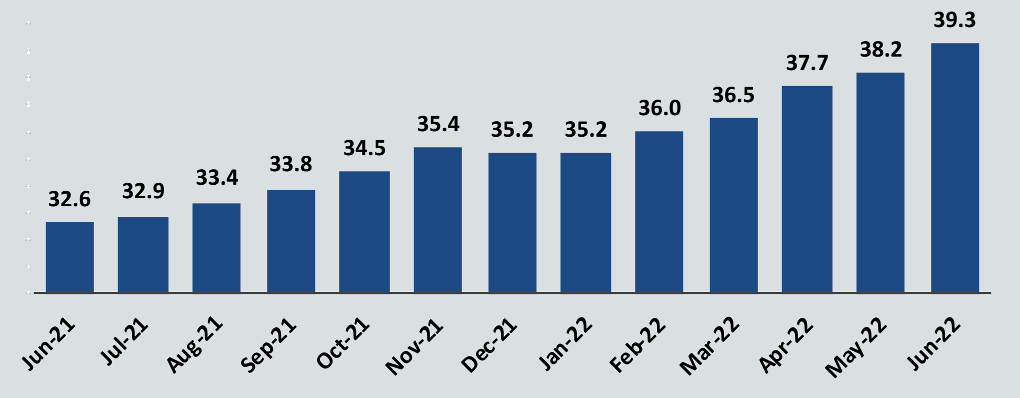
Data Source: Ministry of Finance, Budget and National Planning and Debt Management Office (DMO)

Monetary Policy: Key Charts

Lending Rate (%)



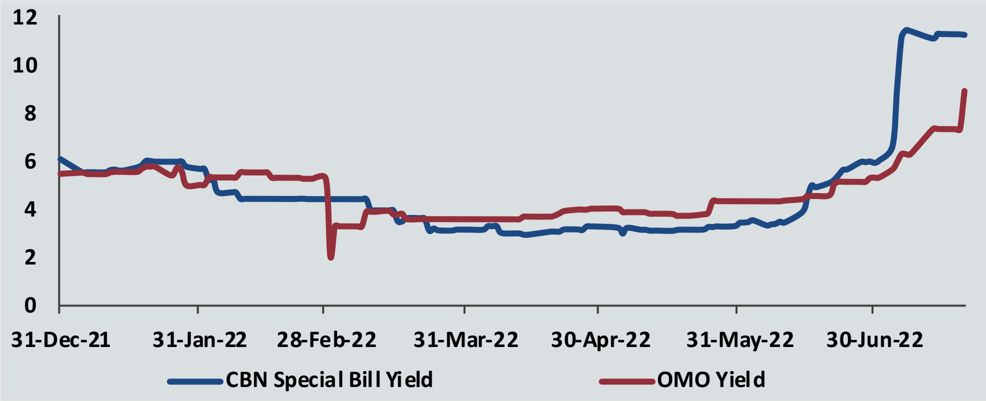
Credit to Private Sector (N'Trillion)



Financial Deepening Indicators (%)

	Jan-22	Feb-22	Mar-22	Apr-21	May-22	Jun-22
Currency/M2	7.42	7.26	7.11	7.10	6.86	6.68
Currency/GDP	1.89	1.87	1.87	1.93	1.92	1.88
M2/GDP	25.53	25.78	26.32	27.21	27.98	28.12
CPS/GDP	20.28	20.74	21.02	21.71	22.01	22.63
Stock Market Capitalization/GDP	14.48	12.16	14.59	15.42	16.66	16.10

CBN Special Bill Yield (%)



fsdh RESEARCH

Data Source: Central Bank of Nigeria

Monetary Policy: Outlook and Expectation

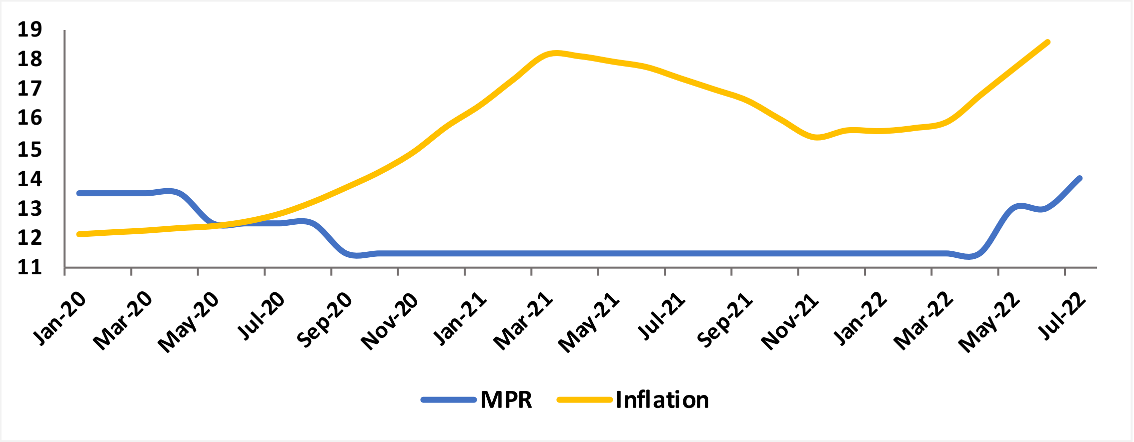
In the fourth meeting of the CBN Monetary Policy Committee (MPC) held in July 2022, the Committee decided to:

- ***raise the MPR from 13% to 14%;***
- ***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.***

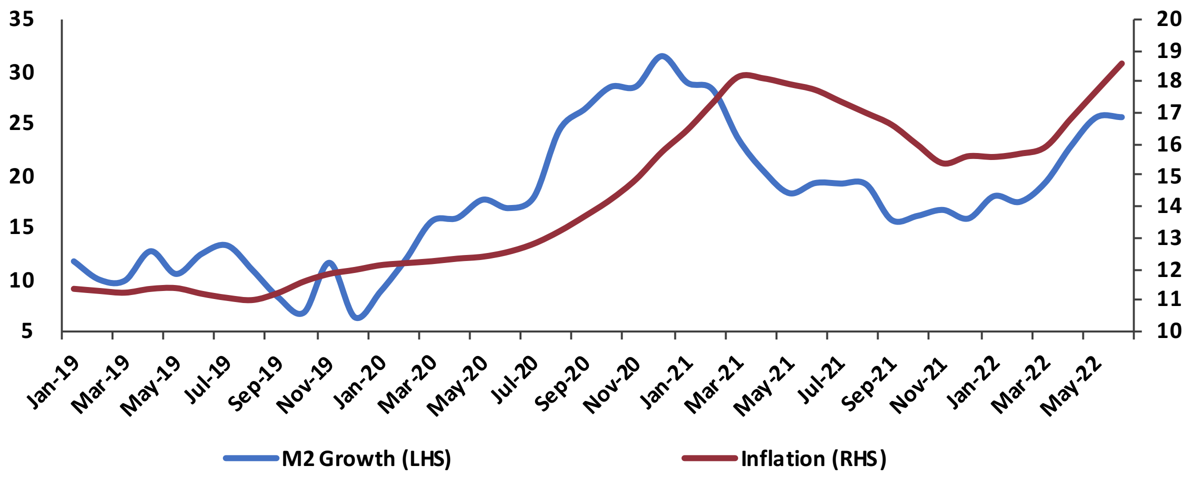
Key factors that influenced monetary policy decisions at the MPC meeting included:

- **Global economic risks;**
- **Continued aggressive movement in inflation;**
- **Fragile recovery;**
- **Liquidity condition, savings and investment;**
- **Purchasing power;**
- **Widening negative real interest rate; and**
- **Exchange rate volatility.**

Nigeria's Inflation Rate vs Monetary Policy Rate (%)



Nigeria's Inflation Rate vs Money Supply Growth (%)



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

Analyst Views: Fiscal and Monetary Policies

Monetary Policy

- The aggressive inflationary pressure has necessitated the need for a higher interest rate in Nigeria and other countries. This is despite the threat to the fragile recovery of the economy from the COVID-19 induced recession.

- The Central Bank MPC noted that raising the MPR is necessary to curtail rising inflation, which, if unaddressed would erode the moderate gains achieved in improving consumer purchasing power and worsen poverty level.

- Raising the MPR however comes with a trade-off. Growth of the real sector could be affected especially considering the tough business environment, particularly for small business owners. Cost of borrowing is expected to be higher for both government and businesses, serving as a risk to growth.

- We anticipate that the MPC will retain its current policy position at subsequent meetings, having increased the MPR in the last two meetings.

Analyst Views: Fiscal and Monetary Policies

Fiscal Deficit, Government Revenue and Public Debt

- The pressure on government finance have become intense. Actual revenue in the first four months of the year was 51% short of its target while debt servicing costs exceeded revenue by 19%.
- With no significant reform to curtail fuel subsidy and address oil theft, government revenue is expected to underperform in the second half of 2022, further raising the need to borrow.
- 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.
- With the recent commercialisation of NNPC, the company is expected to be managed as a private energy enterprise to produce results expected by stakeholders. While this could possibly be the beginning of better financial performance of the NNPC, its impact on Nigeria's fiscal environment, particularly in terms of oil revenues remains unclear at the moment. As we proceed into a new era of the company, modalities such as the level of government interference, ownership structure, corporate governance, attraction of competent employees, efficiency of operations, etc. will need to be clarified.

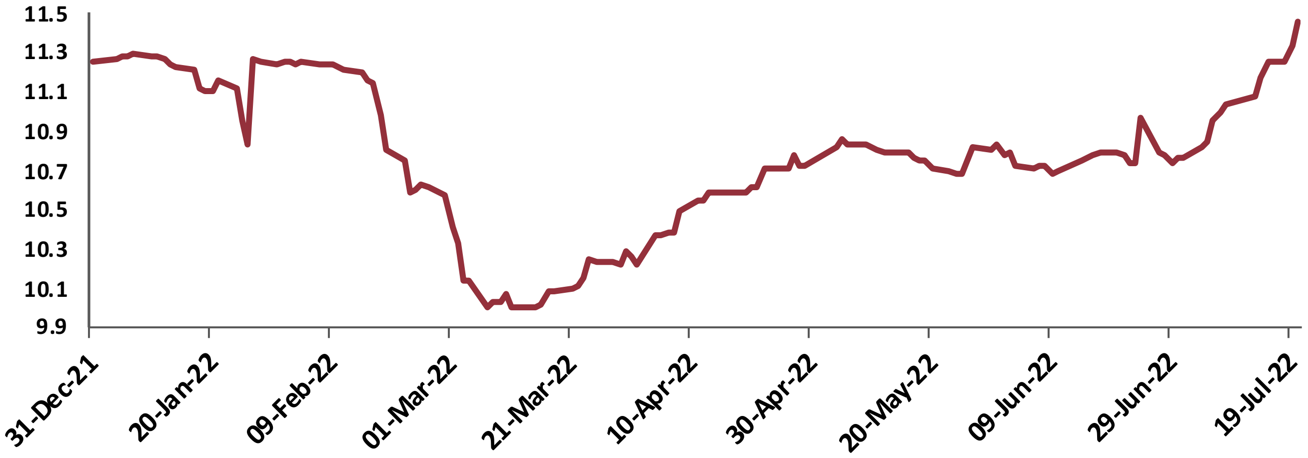
Market Performance

Yields in Nigeria’s fixed income market mirror the global trajectory

FGN Bond Yields Across Selected Tenure (%)

Tenor	31-Dec-21	31-Mar-21	20-Jul-22
5 years	11.27	10.32	11.72
10 Year	12.60	10.87	12.05
15 years	12.85	11.97	12.53
25 Year	12.00	11.80	12.38
30 Years	13.28	12.85	13.15

Trend of Average FGN Bond Yield (%)



Data Source: FMDQ

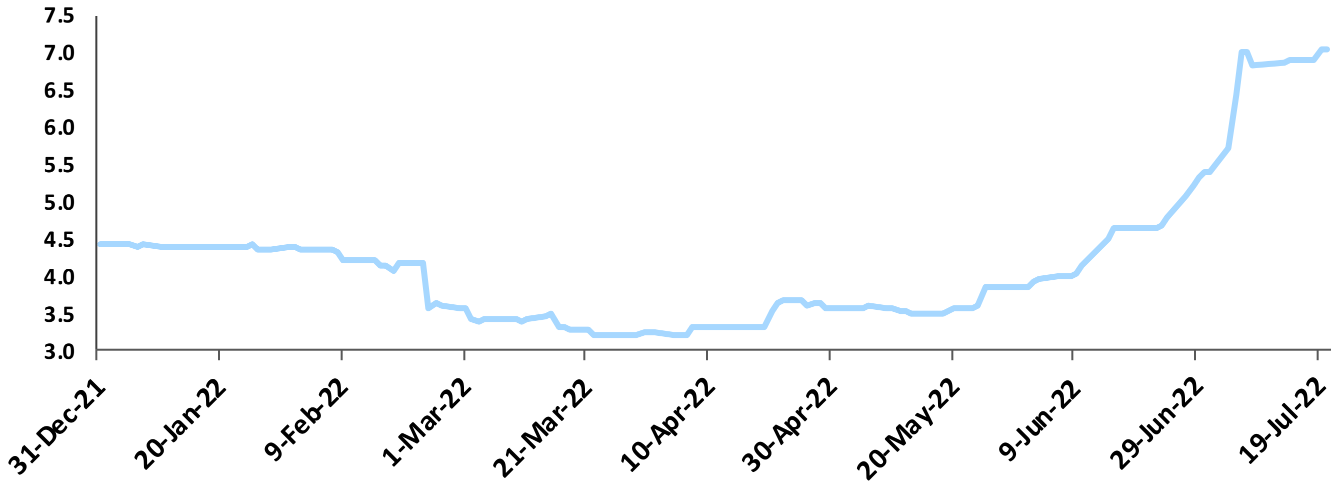
- Yields in Nigeria’s fixed income market are ticking up as the global economy responds to inflationary pressure.
- This is driven by rising rates in advanced economies such as the US, UK and the EU as investors favour investment in their securities over Nigeria’s.
- The average yield in the FGN Bond market increased by 50 basis points to end 2022-Q2 at 10.8% and stood at 11.5% (as at 20th July 2022) from 10.3% on the first trading day of the quarter.
- With no end in sight concerning the Russia-Ukraine crisis and its associated economic impact, yields are expected to remain high.
- While this means increased return for investors, it implies a higher cost of funding (local and international) for the Nigerian government and businesses.

NT-Bill yield curve expresses investors' short term concern on Nigeria's economy

Nigerian Treasury Bill Yields Across Selected Maturities (%)

Tenor	31-Dec-21	31-Mar-21	20-Jul-22
30 Days	3.86	3.07	11.17
90 Days	3.82	2.49	9.19
180 Days	4.32	3.15	8.60
270 Day	5.41	3.44	5.41
320 Days	5.24	3.85	6.37

Trend of Average NT Bill Yield (%)



Data Source: FMDQ

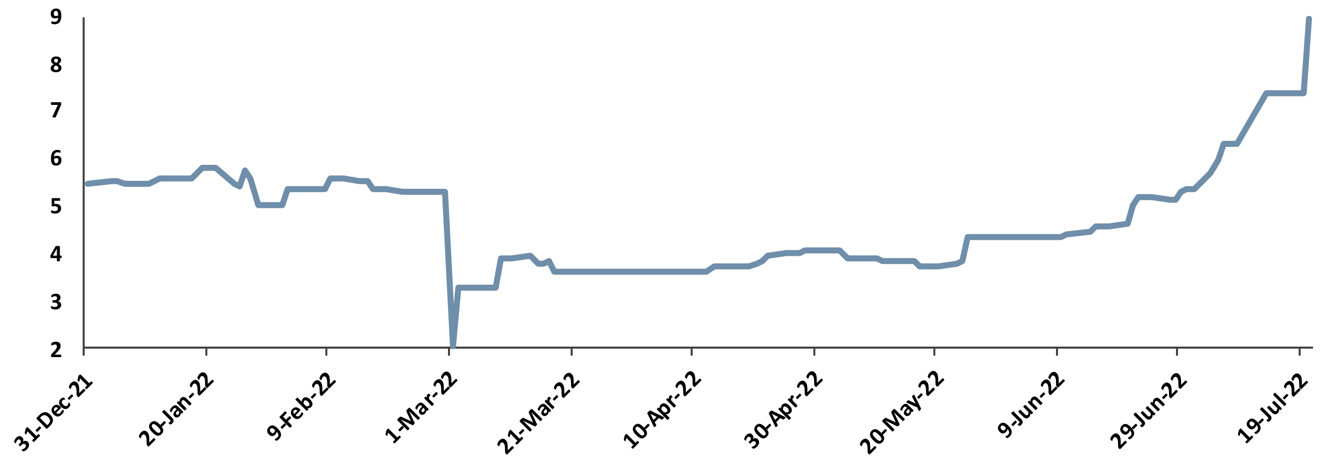
- With the upward adjustment of the Monetary Policy Rate (MPR), yields across all tenors in the Treasury Bill market are also on the rise in 2022-Q2.
- Average yield in the NT-Bill market increased by 220 basis points to 5.4% at the end of 2022-Q2 and increased to 7.0% (as at 20th July 2022) from 3.2% at the end of 2022-Q1.
- While the yields in the NT-Bill space are rising, the yield curve in the market presents a concerning picture for Nigeria in the short term. Yields on shorter tenor instruments are much higher than those on the longer tenor instruments.
- The increasing trend of yields in the NT-Bill market will persist, at least, over the next quarter with the increasing hawkish wave in the global economy.

The OMO space also replicates the NT-Bill performance

Nigerian Treasury Bill Yields Across Selected Maturities (%)

Tenor	31-Dec-21	31-Mar-21	20-Jul-22
Open Market Operation (OMO) Rates			
30 Days	5.52	3.02	10.07
90 Days	5.49	3.02	11.57
180 Days	5.49	3.28	8.41
270 Day	5.51	3.45	8.42
320 Days	5.52	3.93	6.79

Trend of Average CBN OMO Yield (%)

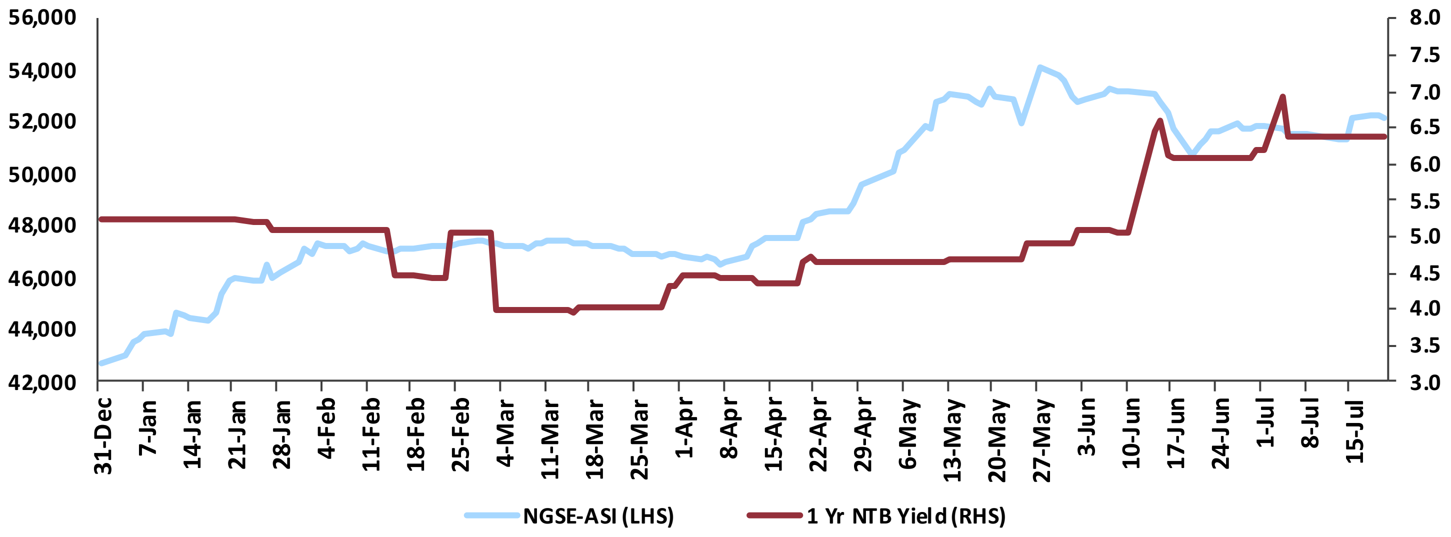


Data Source: FMDQ

- Average yield in the OMO market increased by 160 basis points to 5.3% at the end of 2022-Q2 and increased to 8.9% (as at 20th July 2022) from 3.7% on the first trading day of the quarter.
- Given the tight liquidity conditions in the market, yields on treasury securities will keep interest rates on OMO instruments high in the next quarter.

The hike in MPR constitutes a dent to the bullish sentiment in the equity market

NGSE - ASI (Index Points) vs One Year NTB Yield (%)



Equity Market Indicators

NGX-ASI	2022-Q1	Jul 20, 2022
Open (N'Bn)	42,716.44	46,965.48
Close (N'Bn)	46,965.48	52,186.52
% Change	9.95	11.12 (YtD = 22.17)
MARKET CAP	**2022-Q1**	**Jul 20, 2022**
Open (N'Bn)	22,297.00	25,311.83
Close (N'Bn)	25,311.83	28,142.08
% Change	13.52	11.18 (YtD = 26.21)

Source: NGX

- At the opening of trading in 2022-Q2, the Nigerian equity market intensified its positive performance, having recorded a 10% upside in 2022-Q1.
- This was motivated by the relatively lower yields across the fixed income market and record performance from large-cap companies in terms of business fundamentals.
- However, the increasing wave of hikes in interest rates and increase in the CBN MPR dented the bullish trajectory of the equity market, despite that it is still on the gaining side.
- Hence, the NGX-ASI settled at 52,186.52 index points (as at 20th July 2022), representing an 11.1% gain with a year-to-date gain of 22.2%.

Despite rate hike, equity market remains on the gaining side driven by a few counters

Sectoral Performance (%)

SECTORS	2022-Q1	July 20, 2022
NSE ASI	9.95	11.12
NSE 30	3.99	5.75
Banking	0.79	-4.23
Insurance	-6.03	-7.54
Industrial	5.39	-1.68
Oil & Gas	27.66	27.55
Cons. Goods	-5.96	8.88

Performance of Major Market Movers in 2022-Q2*

Companies	Market Cap (N' Billion)	July 20, 2022 (%)	Contribution (%)
AIRTEL	7,160.78	51.17	46.43
MTNN	4,661.18	7.01	5.85
DANGCEM	4,515.73	-3.11	-2.77
BUACEMENT	2,346.80	-2.05	-0.94
NESTLE	1,109.72	0.36	0.08
SEPLAT	841.77	53.82	5.64
ZENITHBANK	689.15	-2.01	-0.27
GTCO	615.11	-6.70	-0.85
STANBIC	408.79	-7.61	-0.65
FBNH	403.82	-9.27	-0.79

Source: NGX *Data ends at 20th July, 2022

- While the gain in the Nigerian equity market was motivated by gains across many sectoral indices, sectoral and company performances are, however, skewed towards a few counters.
- The NSE 30 index that tracks the performances of the stocks of top companies appreciated by 5.8% (however, far less than the gain on the NGX-ASI). This was motivated by negative (-4.2%) performance in the banking sector which dominates the NES 30 index, alongside losses in the industrial sector.
- Reaping from the bullish trend in the global oil market, the oil & gas sector recorded a 27.6% gain in 2022-Q2*. Likewise, the consumer goods sector index expanded by 8.9%.
- The gain in the equity market has largely been driven by AIRTELAFRICA, contributing 46.4% of the gains recorded so far. The contribution of others, such as SEPLAT and MTN, amount to 5.6% and 5.9%, respectively.
- The growth in AIRTELAFRICA stock is motivated by its dual listing, serving as a medium for transferring assets abroad in the face of restrictive capital mobility.

Capital Market: Analyst View – Outlook and Expectations

Fixed Income and Equity Markets

- Rising inflation has resulted in a series of rate hikes by the CBN Monetary Policy Committee. This, however, presents a challenge to the government, which has a fiscal deficit of N7.35 trillion.

- While yields are ticking up in the global market, sell-offs appear to be a major driver of increasing yields across segments of Nigeria's fixed income market as investors look out for safe havens in this turbulent time. Nigerian government securities have already seen their prices drop, driving up yields on all fronts.

- This is particularly the case of the July 2022 FGN Bond Auction of N225 billion was undersubscribed despite relatively higher spot rates. If this trend persists, the government will struggle to meet up with its fiscal deficit and impact the economy significantly.

- With the lingering global crisis and the impact of the pre-election year on investors' confidence, yields will remain elevated into 2022-Q3 and 2022-Q4.

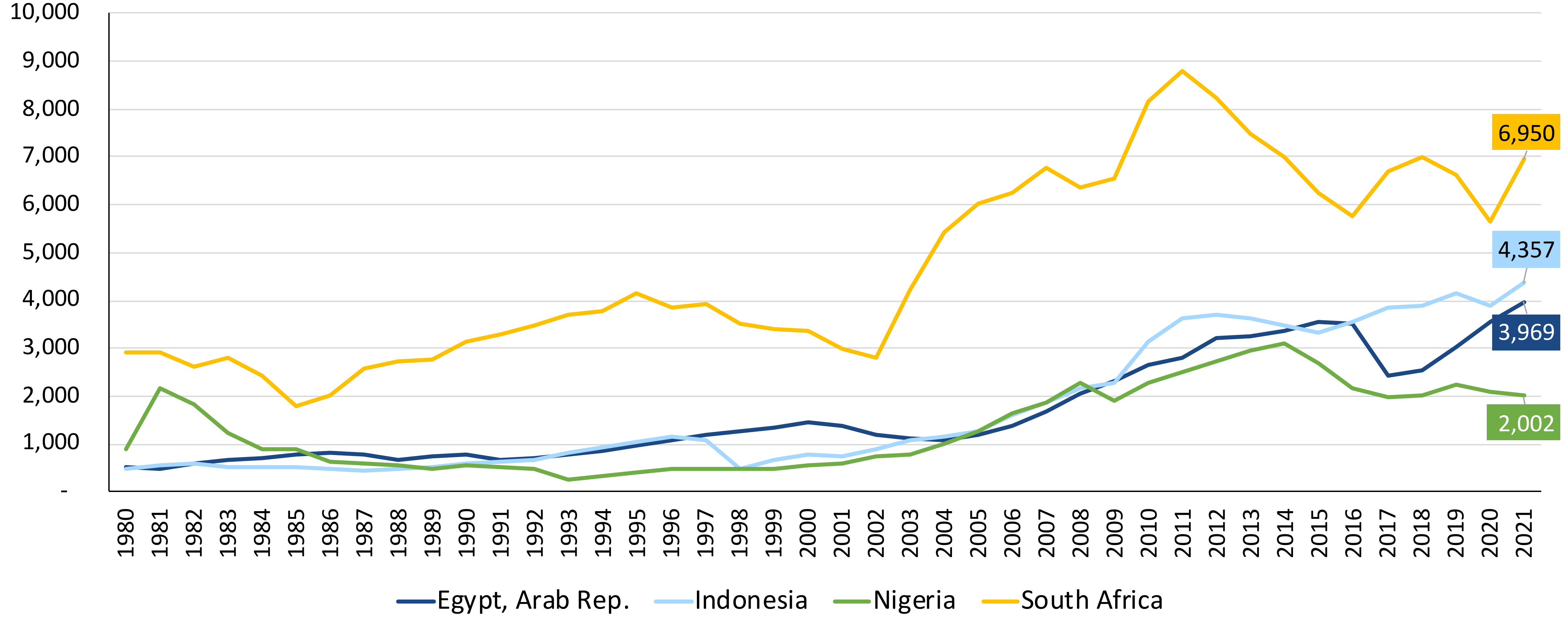
- Meanwhile, the rising yields are driving the bearish sentiment in the equity market and will persist deep into 2022-Q3 and 2022-Q4. However, with a robust earning season, the equity market can still sustain its positive stance to close the year.

The 2023 Elections and the Economy: Who Will Revitalise the Nigerian Economy In Times of difficulty?

Despite being the largest economy in Africa, Nigeria's GDP Per Capita is low

Nigeria's per capita income remains low vis-à-vis comparable countries. It's per capita income in 2021 (US$2,002) is below that of 1981.

GDP Per Capita at current prices (US$)



Data Source: World Bank WDI and Country Statistical Agencies

fsdh RESEARCH

Since 2019, the economic and social landscape have become tougher

The stakes are higher. The 2023 elections will determine the social, political and economic trajectory of Nigeria.

Performance of Key Indicators from 2018 to 2021

Indicator	2018	2019	2020	2021
GDP Growth (%)	1.9	2.3	-1.9	3.4
Nominal GDP (Billion US$)	417.3	469.9	424.5	433.8
GDP Per Capita (US$)	2,028	2,230	2,097	2,002
Foreign Direct Investment (US$ 'million)	1,195	934	1,028	699
Unemployment Rate (%)	23.1	-	33.3	-
Number of Poor (million)	-	82.9	-	91
Inflation Rate (%)	12.1	11.4	13.2	17.0
Official Exchange Rate (N/US$)	306.1	306.9	358.8	400
Corruption Perception Index Ranking	144	146	149	154

Texts in green represent improvement relative to the previous year. Red texts represent negative performance.

fsdh RESEARCH

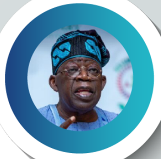
Data Source: National Bureau of Statistics, World Bank, World Bank WDI, CBN, Transparency International

Who will adopt the right policies to tackle the burgeoning political and socio-economic challenges?

fsdh RESEARCH

The 2023 General Elections: The Candidates' Plans

The Five Major Objectives as contained in their manifestos

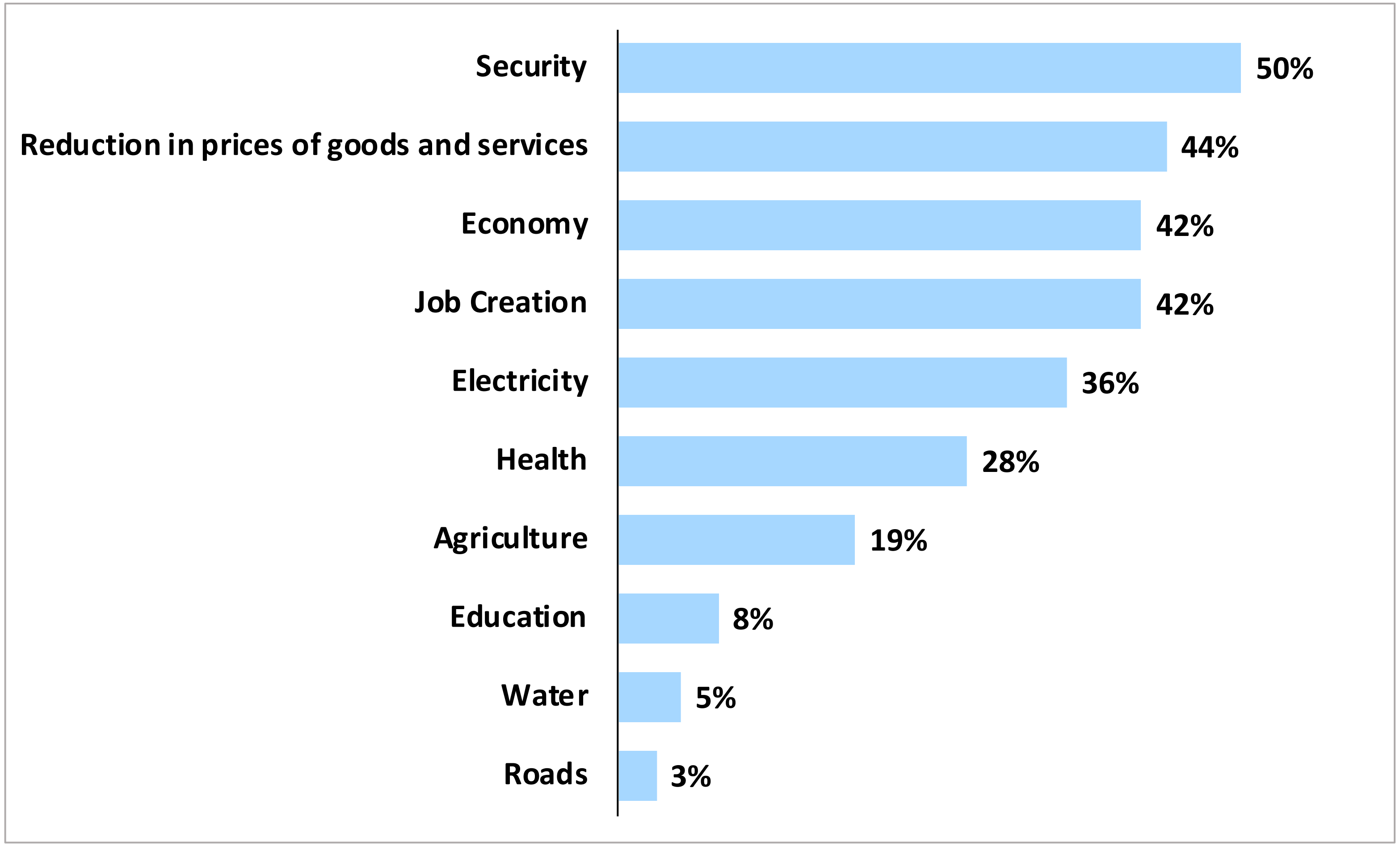


Atiku Abubakar		Bola Ahmed Tinubu
Restore Nigeria's unity through equity, social justice as well as cooperation amongst different stakeholders.	1.	Achieve a nation that is founded on justice, peace, and prosperity for all.
Establish a strong and effective democratic government that guarantees the safety and security of lives and property.	2.	Ensure a vibrant and thriving democracy and a prosperous nation with a fast-growing industrial base, to meet local needs and exports.
Build a strong, resilient, and prosperous economy that creates jobs and wealth and lifts the poor out of poverty.	3.	Ensure a country with a robust economy, where prosperity is broadly shared by all irrespective of class, region, and religion.
Promote true federalism that guarantees national unity while allowing the federating units to determine their priorities.	4.	Ensure Nigeria becomes the pride of Africa, a role model for all black people, and respected among all other countries.
Improve and strengthen the education system for global competitiveness.	5.	Build a nation where its people enjoy all the basic needs, including abundant food, affordable shelter, health care, education and security.

The 2023 elections will be contested between the two major parties and a third force, which is still emerging. So far the candidates of the two main political parties have released their plans for 2023 and beyond. Contenders such as Peter Obi and Rabiu Kwankwanso are yet to release their manifestos. All candidates are expected to have full fledged strategy direction by the start of the campaign season.

But, What Do Nigerians Want?

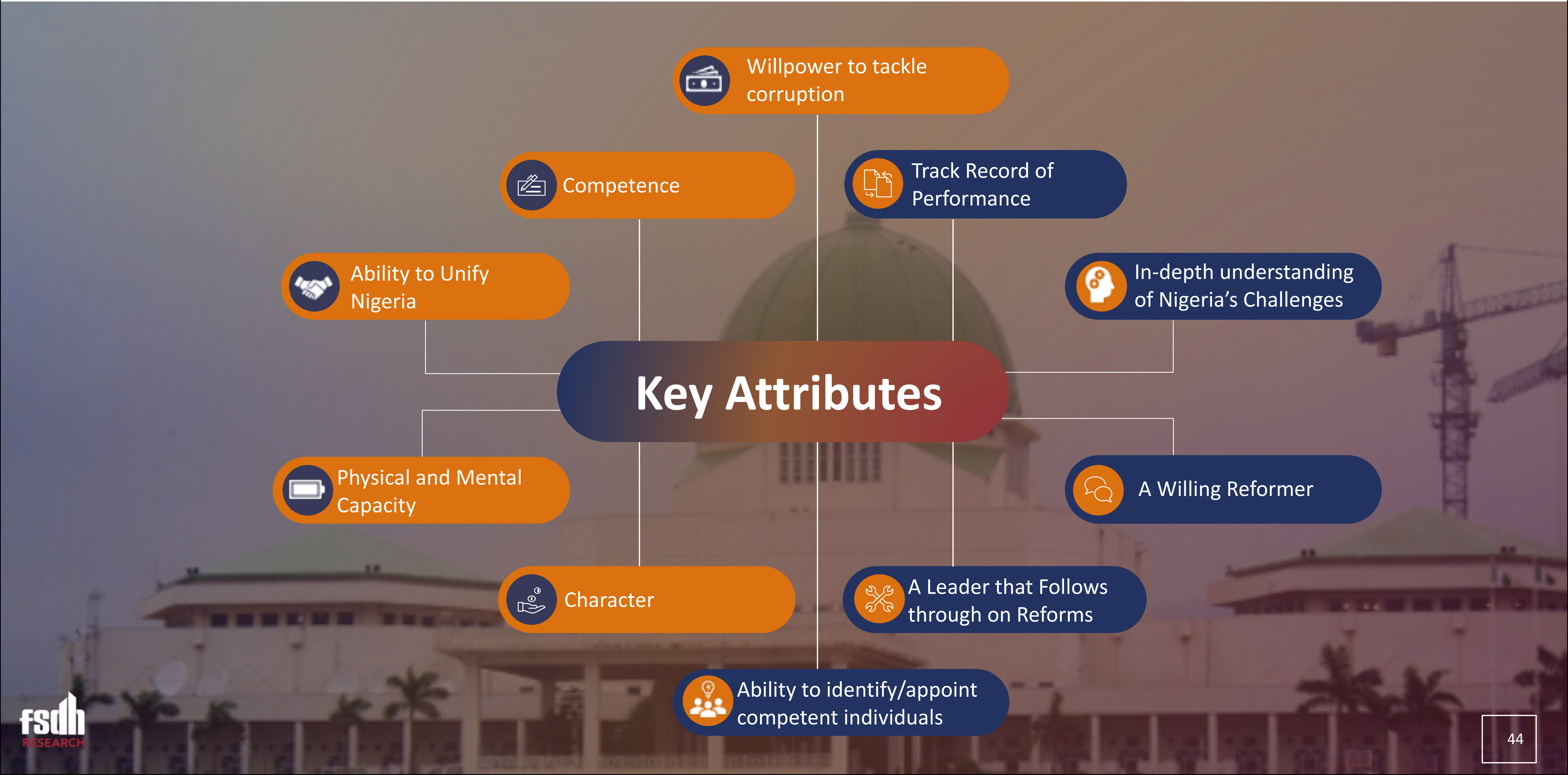
The key areas Nigerians want the government to focus its attention on in 2022



- A survey by NOI Polls showed that Security, Inflation, Economy and Job Creation topped the agenda of Nigerians for 2022.
- Heightened insecurity, inflation and unemployment have limited output growth and led millions of Nigerians into poverty.
- We believe that these issues will remain on top of the agenda for Nigerians in 2023 and beyond.

Data Source: NOI Polls

What should Nigerians look out for in a Presidential Candidate?



Going forward, we highlight six priority areas for the incoming government to focus on, in the medium term

1. *Macroeconomic Stability*

- Define and implement a clear growth strategy that incentivizes the private sector across major economic sectors.
- Re-assess the implication of rising fiscal deficit and public debt sustainability on macroeconomic stability and implement strategies to ensure effective and efficient public expenditure management.
- Ensure clarity of foreign exchange policies and allow a market reflective exchange rate. Enhance fiscal and monetary coordination to tackle inflation.

2. *Food & Energy Security*

- Enhance productivity in agriculture through mechanisation, training of farmers and the use of modern technology.
- 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.
- 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.

Going forward, we highlight six priority areas for the incoming government to focus on, in the medium term

3. *Governance and Institutional Reforms*

- Devolve economic power to the state government to allow them harness their mineral resources.
- Embark on a comprehensive civil service reforms to ensure efficiency, effectiveness and accountability.
- Remove wastage and inefficiencies in the annual federal government budget. Allocate spending to priority areas.

4. *Security of Lives and Property*

- Hasten the procurement of materials and equipment needed by security agencies to tackle insurgency.
- Ensure recruitment of more security officials; ensure they are properly trained, well-equipped and well-paid.
- Ensure transparency and accountability of security-related funds.

Going forward, we highlight six priority areas for the incoming government to focus on, in the medium term

5. 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. Incentivize private investment in developing ports in other parts of the country, outside Lagos.
- Ensure constant stakeholder engagement 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. Incentivise production for exports, particularly non-oil goods, to boost external reserves accretion.

Going forward, we highlight six priority areas for the incoming government to focus on, in the medium term

6. Youth and Social Inclusion

- Review the current minimum wage and implement a comprehensive and transparent social transfer for the poor and vulnerable across the country.
- Improve access to health care and education in rural areas through a massive universal education and health programmes for Nigeria.
- Prioritise the development of education by increasing allocation to the sector, reviewing curricula across all educational levels and ensuring effectiveness, transparency and better governance of education agencies in the country.
- Revamp the national vocational system to provide young people with the relevant skills to become productive and earn a living.
- Prioritise the adoption and development of technology by investing in e-governance programmes, strengthening research partnerships between government institutions and tech companies and incentivizing the private sector to establish technology hubs and adopt technology in key sectors like agriculture, healthcare, education, manufacturing etc.

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	• 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$29.3 billion • Exchange Rate at N462/US$

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.*

www.fsdhgroup.com