Nigeria's Macroeconomic Report

An Economy in Transition - Bold Reforms, New Challenges

September 2023

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SECTION 01

Review of the Global Economy

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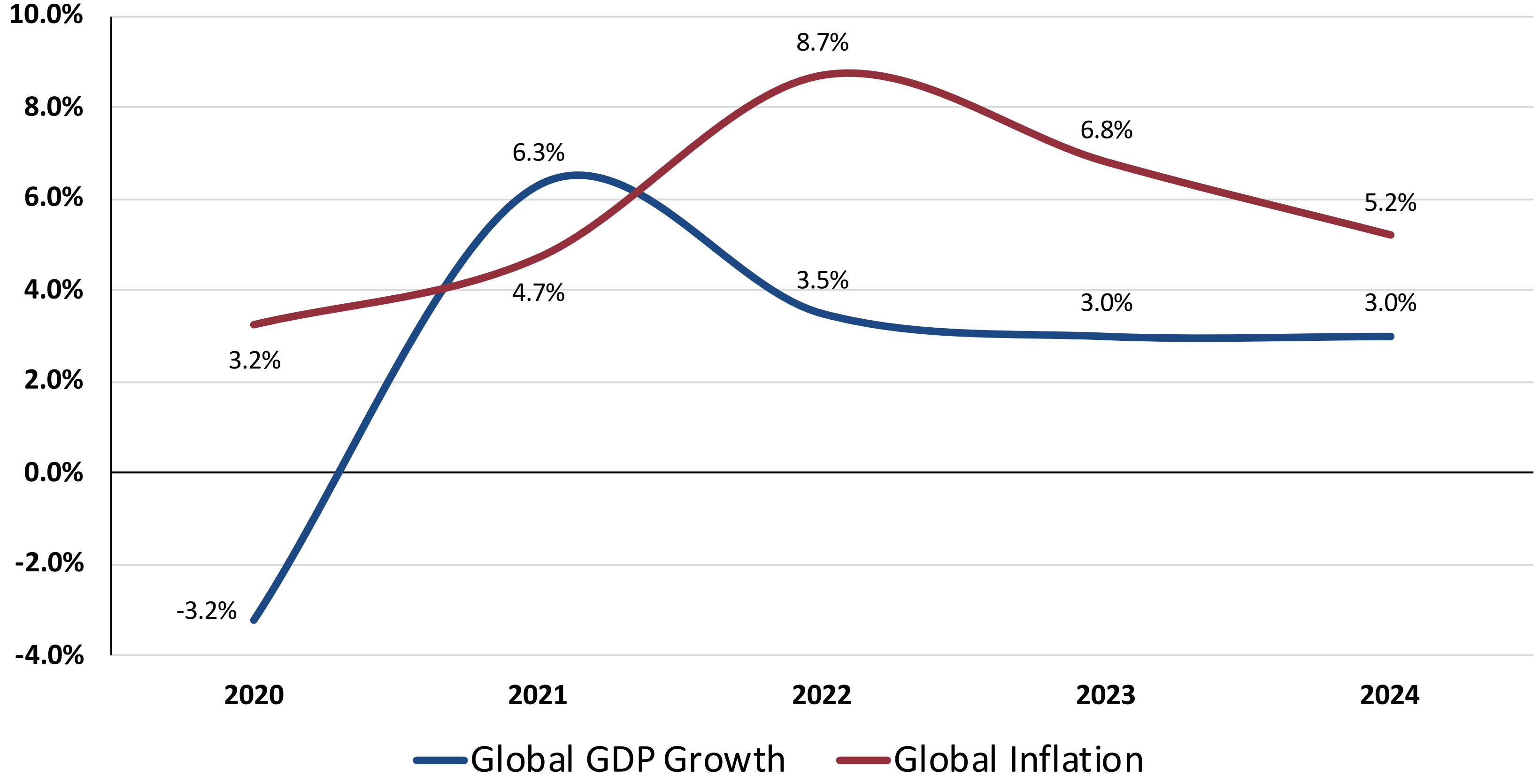
Global GDP growth remains sluggish due to slower growth of consumer demand

Global GDP Growth and Global Inflation (%)



- The International Monetary Fund (IMF) projected a global GDP growth of 3% for 2023, slower than 3.5% in 2022.
- Factors such as inflation, higher interest rates and weak consumer demand will negatively influence GDP growth in 2023.
- Output growth in emerging and developing economies (4%) will outpace growth of developed economies (1.5%) in 2023 and 2024.
- Following a series of monetary tightening, inflationary pressure is subsiding in many countries.

Data Source: IMF

Oil price heads towards US$100 per barrel as Saudi Arabia and Russia cuts production

Crude Oil Price (US$ per barrel)

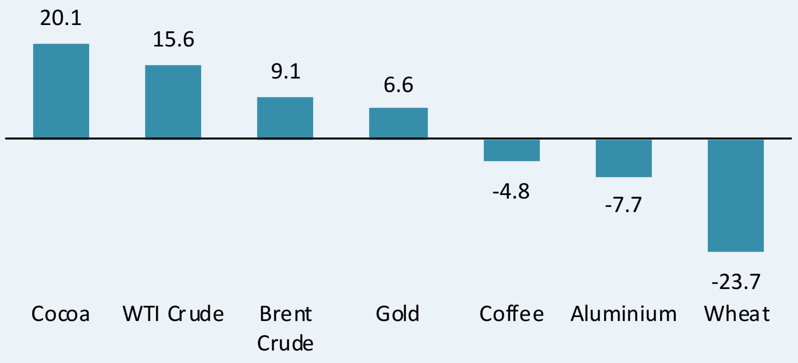
The recent price increase is driven by the extension of production cuts of 1.3 million barrels per day (bpd) of crude to year-end by Russia and Saudi Arabia. Price forecasts show that Brent futures could exceed the $100 pb threshold before the end of the year.

Data Source: EIU

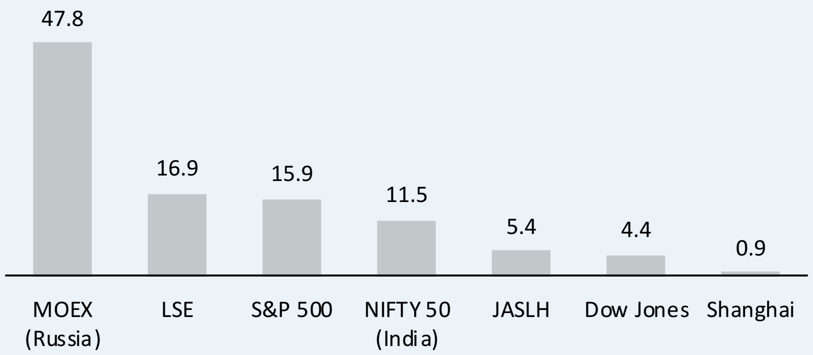
SECTION 01

The impact of the war in Ukraine persists across global markets

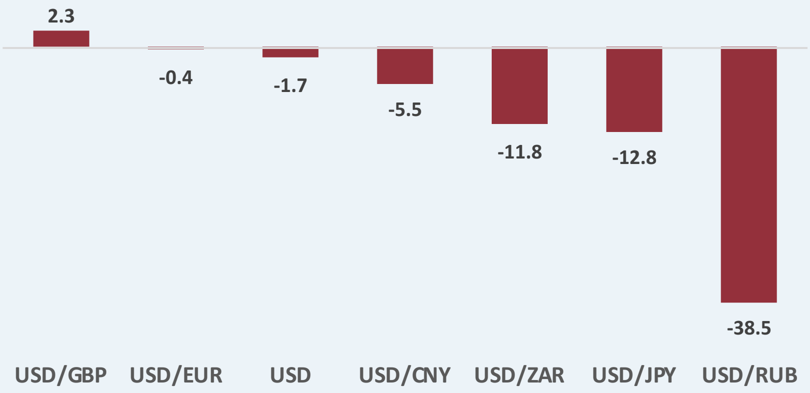
Commodity Markets Performance (YTD % Change)



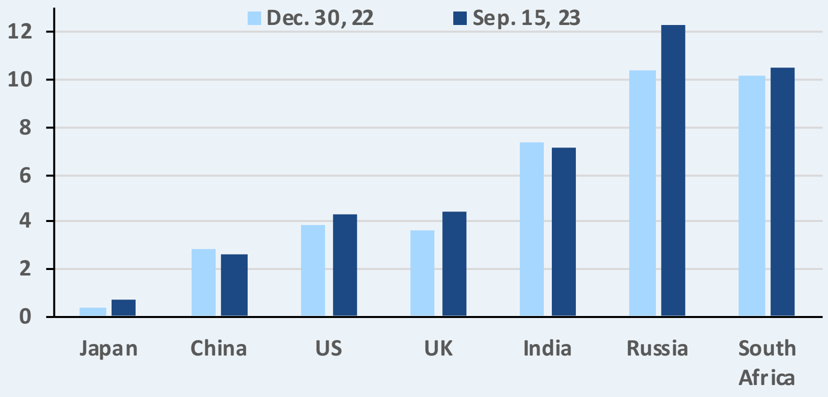
Stock Markets Performance (YTD % Change)



Global Currency (YTD % Change)



Ten Year Government Bond Yield Performance (%)



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Data Source: Investing.com *Note: End period for the data is September 15, 2023*

Analyst Views on the Global Economy

- The Russia-Ukraine war continues to restrain the global supply-chain, with negative implication on regional and global output growth and inflation. Although inflation rate appears to be trending downwards in developed economies, many emerging and developing countries are still dealing with high prices and the implication of high interest rates. The continuation of the war will be a major risk to global growth and inflation in the near term.

- Upward trending oil price driven by voluntary cuts by Russia and Saudi Arabia could elevate inflationary pressure in developed countries. This, therefore, could result in a higher interest rate environment as Central Banks are likely to keep benchmark rates stable in the short term. For developing economies, this will impact capital flows unfavourably and could slow down output growth.

- The invitation of Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the UAE to join the BRICS countries in January 2024 highlights the increasing dominance of the East in global economic affairs. The group represents a larger share of the world's population and GDP. With more countries expressing interest to join the group, the world could be heading towards a shift in the global order.

- In the first quarter of 2023, there were fears of a banking crisis following the collapse of SVB and other banks. The investigation report of the committee set up by President Joe Biden revealed that the collapse of SVB was due to internal mismanagement and supervisory missteps. While the fear of a banking crisis has been doused, banking regulators need to be vigilant and ensure tight and effective supervision, as the world cannot afford a global banking crisis at this moment. The Central Bank of Nigeria must continue to do risk-assessment on Nigerian banks and ensure compliance with relevant guidelines.

SECTION 02

Nigeria's Macroeconomic Environment

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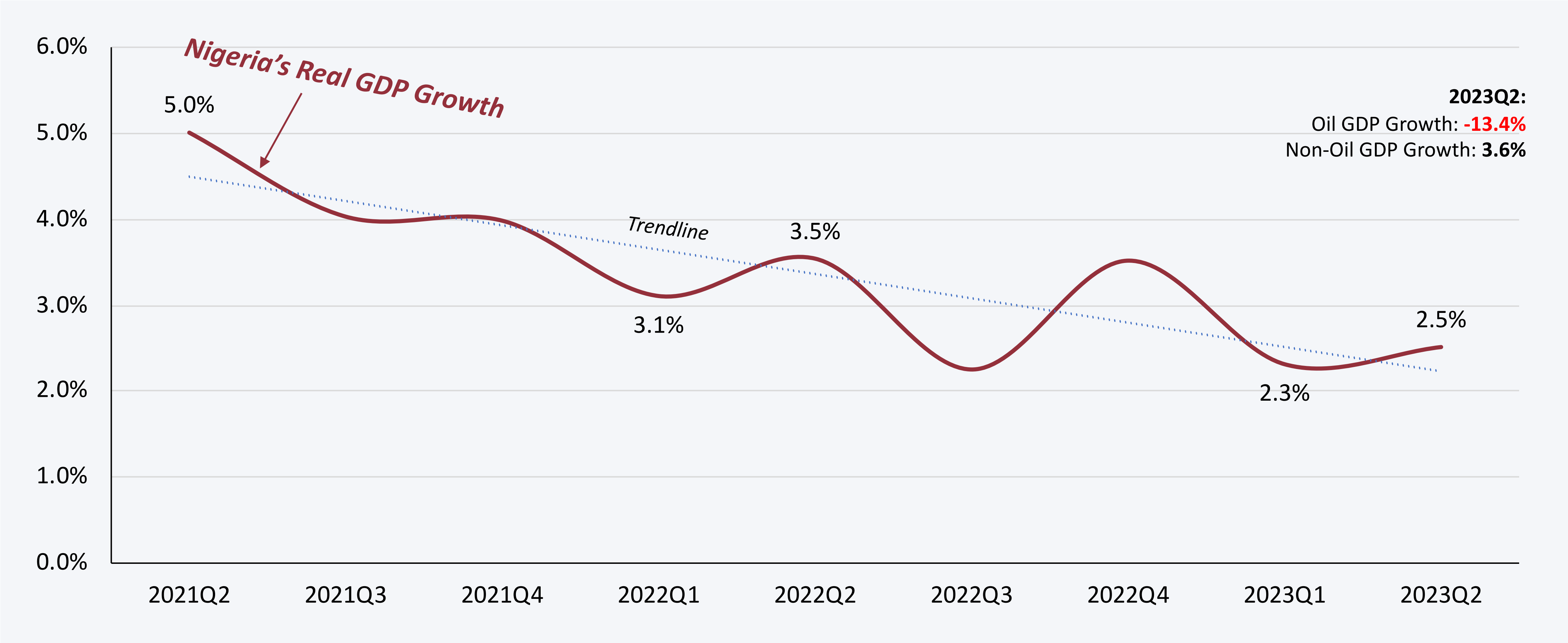
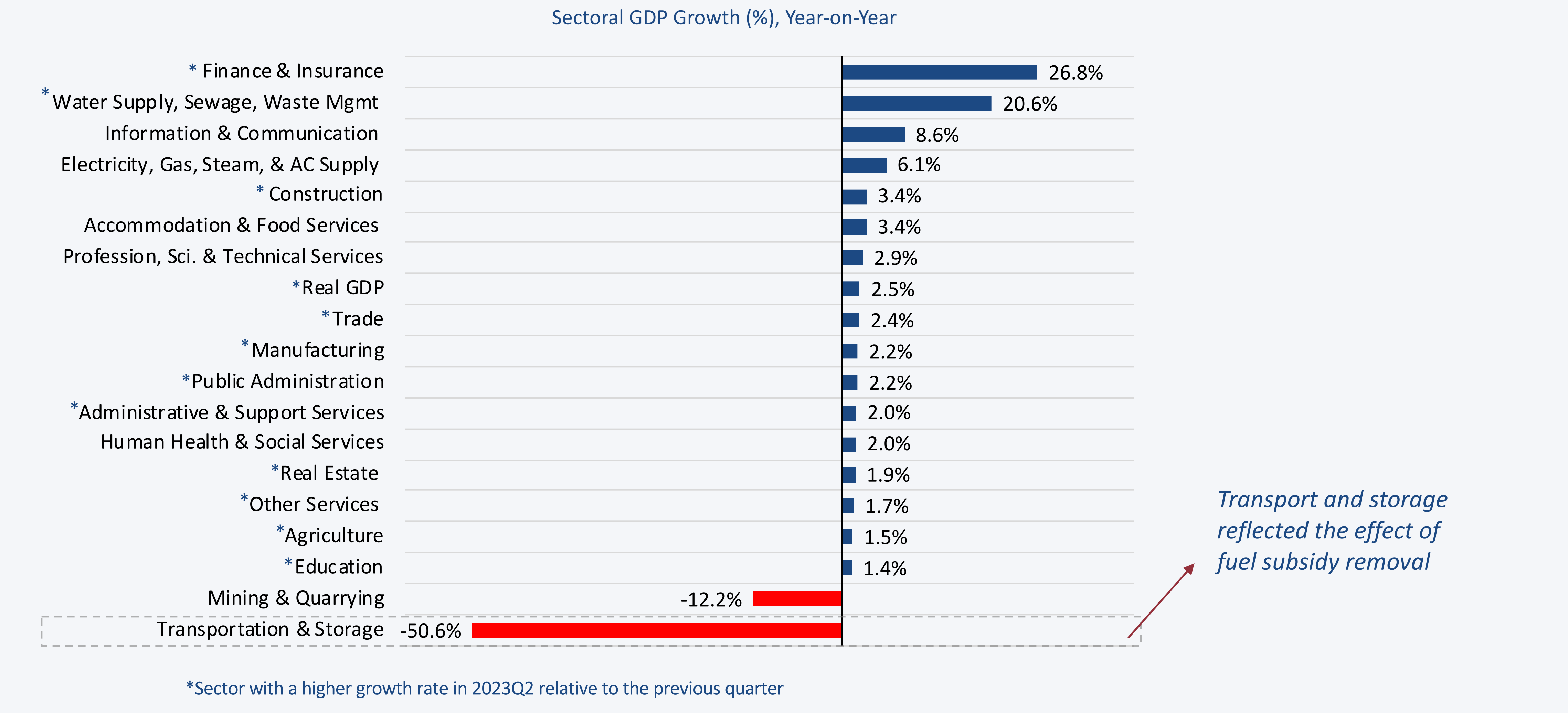
Nigeria's real GDP growth of 2.5% for 2023Q2 remains weak and was driven by the non-oil sector



Data Source: National Bureau of Statistics

In Q2, 11 sectors experienced a higher output relative to Q1. Crude oil theft continues to weigh on oil output and growth of the mining & quarrying sector



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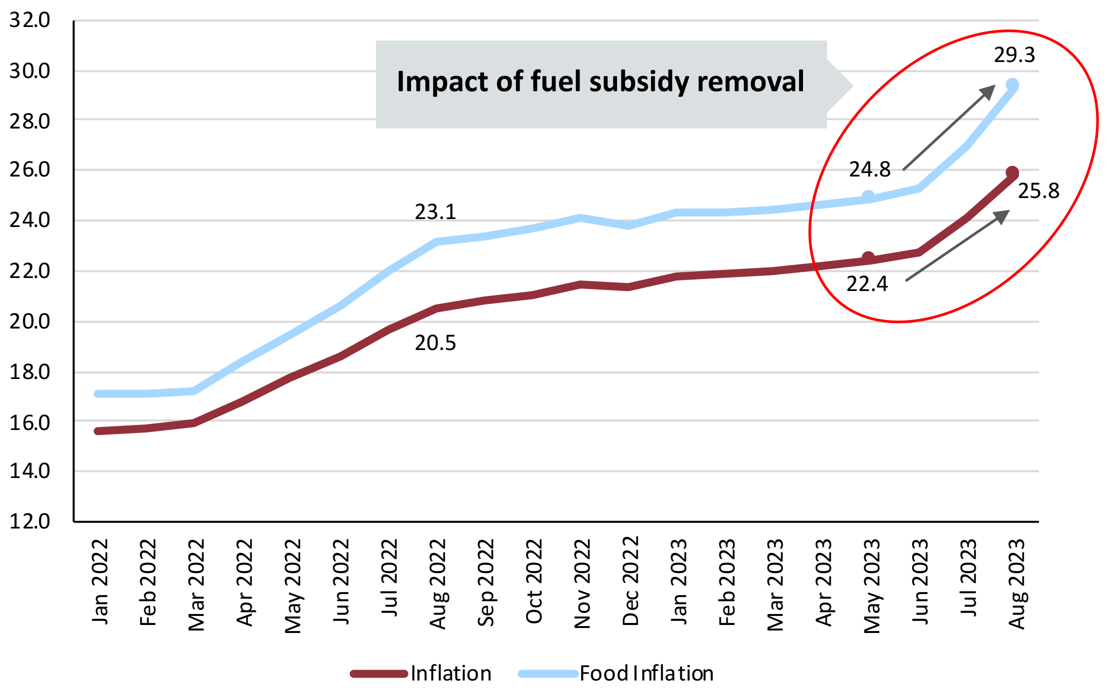
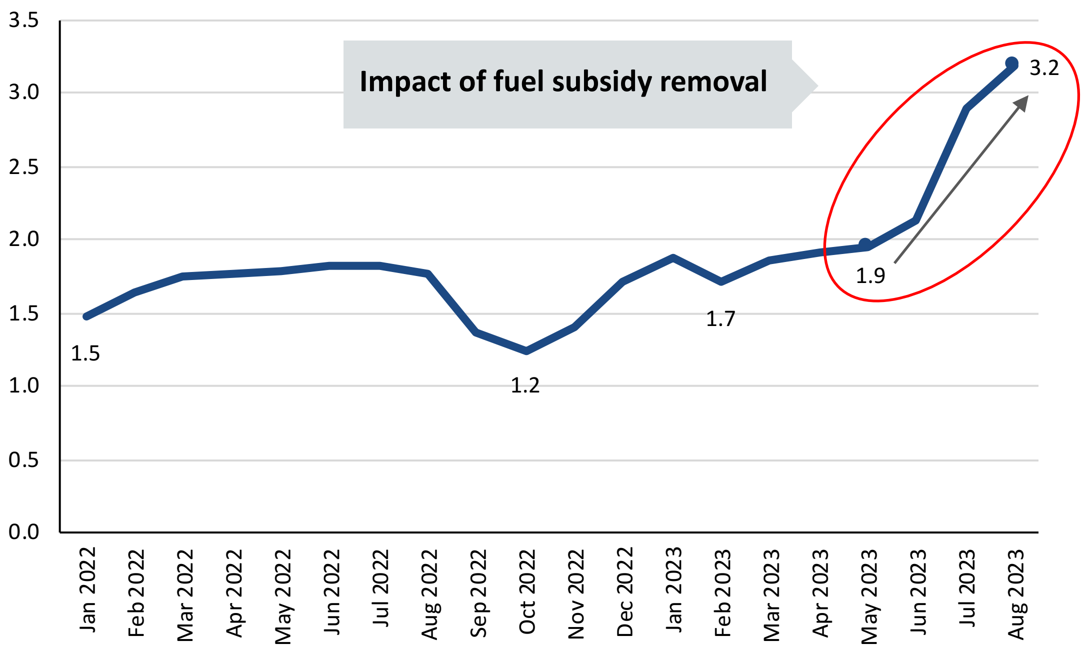
Data Source: National Bureau of Statistics

Inflation rate rose to 25.8% in August 2023 reflecting the impact of fuel subsidy removal

Inflation Rate (%), Year-on-Year



Inflation Rate (%), Month-on-Month



- Since the subsidy removal, inflation rate has edged up by 3.4 percentage points. Food inflation rate rose faster to 29.3% in August.
- Further increase in petrol and diesel prices as well as exchange rate depreciation are likely to drive up inflation rate in coming months.

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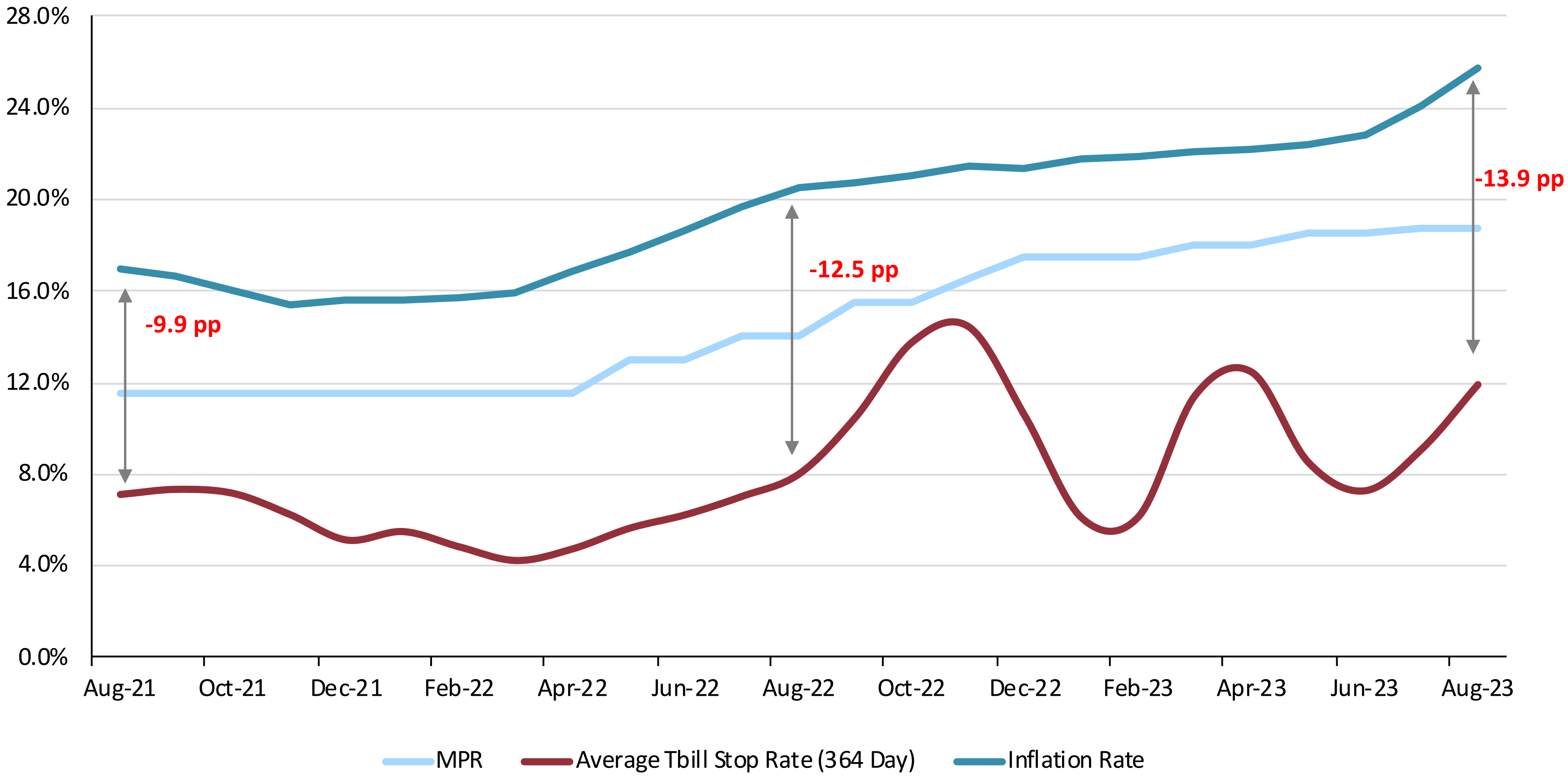
Data Source: National Bureau of Statistics

Increase in Tbills rate to 11.9% in August narrowed the interest rate gap, despite an upward trending inflation rate

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



- The need to attract foreign investment inflows led to an increase in average Tbills stop rate from 9% in July to 11.9% in August.
- This increase narrowed the interest rate gap to -13.9 percentage point (pp) from -15pp in July.
- Despite this, Nigeria has a high negative real interest rate, which is detrimental to domestic investment.

Data Source: National Bureau of Statistics & Central Bank of Nigeria   pp - percentage points

Since the assumption of office by President Tinubu, the Government has shown commitment to implement foreign exchange reforms…

Major FX policies

Removal of FX Peg

On June 14, 2023, the CBN announced the abolishment of all the segments in the FX market which were collapsed into the I&E window.

Willing Buyer, Willing Seller model

The CBN re-introduced the Willing Buyer, Willing Seller framework and sustained the guiding rules of the I&E window.

Government Exchange Rate

Exchange rate used for government transactions was changed from the static peg to the market reflective rate.

Discontinuation of Naira for $ Schemes

Alongside other changes announced on the 14th of June 2023, the CBN discontinued the RT200 Rebate Scheme and the Naira4Dollar Remittance scheme.

NNPC Limited's loan from AfreximBank

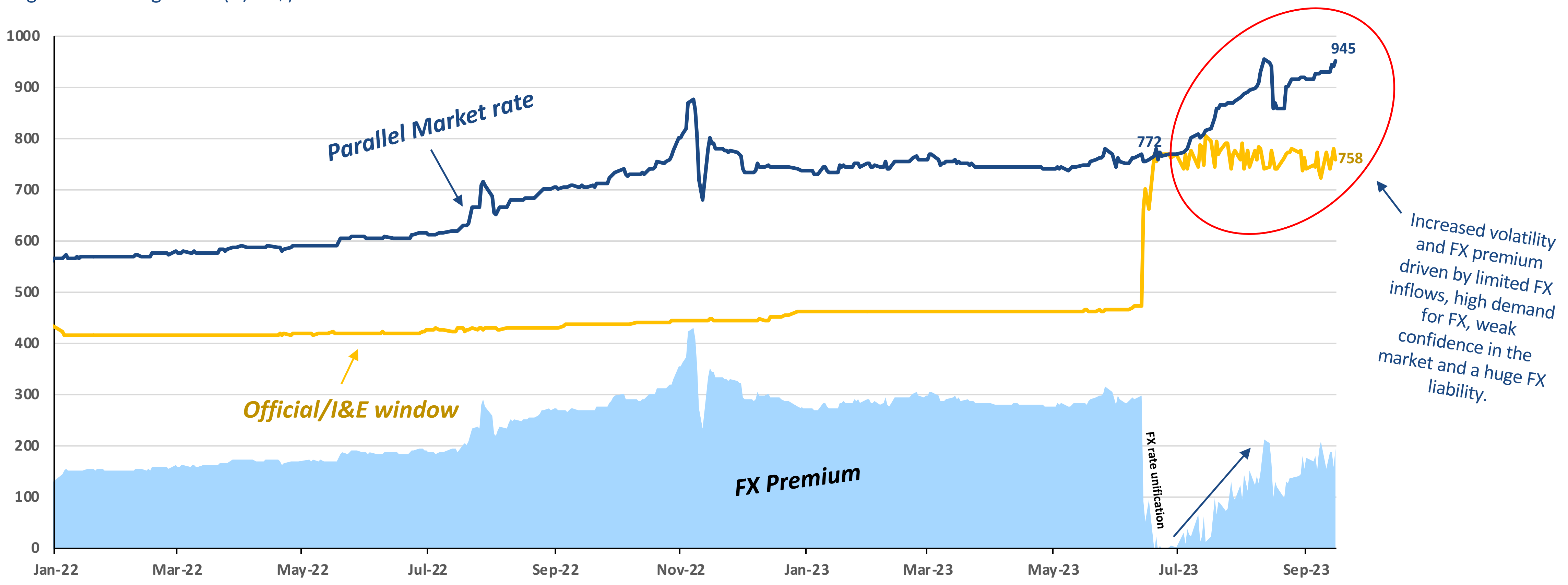
In bid to bolster liquidity in the Nigerian forex market, the NNPC Limited secured an oil forward contract loan of US$3 billion from the AfreximBank.

Resumption of forex sales to BDC

On August 17, 2023, the CBN released an operational guideline for BDCs. It fixed the spread on buying & selling of forex at a limit of +/-2.5% of the weighted average of transactions executed the previous day on the I&E Window.

…but the forex market continues to experience pressure, despite rates unification in June

Nigeria's Exchange Rate (N/US$)



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

Note: End period for the data is September 15, 2023

JP Morgan estimated Nigeria's External Reserves at US$3.7 billion

Computation of CBN net reserves for 2022

	US$ Billion	Trillion Naira
Gross External Reserves + IMF SDR (A)	**37.4**	**17.24**
Liabilities: • FX Forwards • Securities Lending • Currency Swaps	 6.8 5.5 21.3	 3.2 2.5 9.9
Total Liabilities (B)	33.7	15.6
Net FX Reserves (A-B)	**3.7**	**1.7**

The JP Morgan report highlighted some points:

- **The Good:** Profitability of the Central Bank of Nigeria with an increase in assets from US$78.7bn in 2015 to US$129.4bn in 2022.
- **The Bad:** Low net reserves limits the ability of the CBN to introduce a flexible exchange rate regime in the medium term.
- **The (not so) Ugly:** The CBN can still obtain FX at commercial and semi-commercial rates, leveraging on currency swaps with commercial banks.

Data Source: JPMorgan Chase & Co.

Going by JP Morgan estimates, Nigeria's External Reserves could only cover less than one month of imports of goods and services

- One major goal of the external reserve is to support and maintain confidence for monetary and exchange rate management.
- Conventional rule of thumb to measure reserve adequacy argues that months of import cover should be at least 3.

Import cover (goods and services) using CBN External Reserves Data and JP Morgan Reserve Estimate

	2022		2023
	Using CBN External Reserves Data as at Dec 2022	Using JP Morgan Reserve Estimate (Dec 2022)	Using CBN External Reserves Data as at end of August 2023
External Reserves in US$ billion (a)	**36.0**	**3.7**	**33.2**
Average value of goods imports (monthly)	4.3	4.3	3.9
Average value of services payments (monthly)	1.3	1.3	1.4
Average value of total imports (monthly) in US$ Billion (b)	**5.6**	**5.6**	**5.3**
Import cover (a/b)	**6.4**	**0.7**	**6.31**

JP Morgan estimate showed that net external reserves could only cover less than one month of imports. However, import cover for goods and services remains above 6 months using CBN data on Reserves.

Data Source: CBN, NBS, In-house computation

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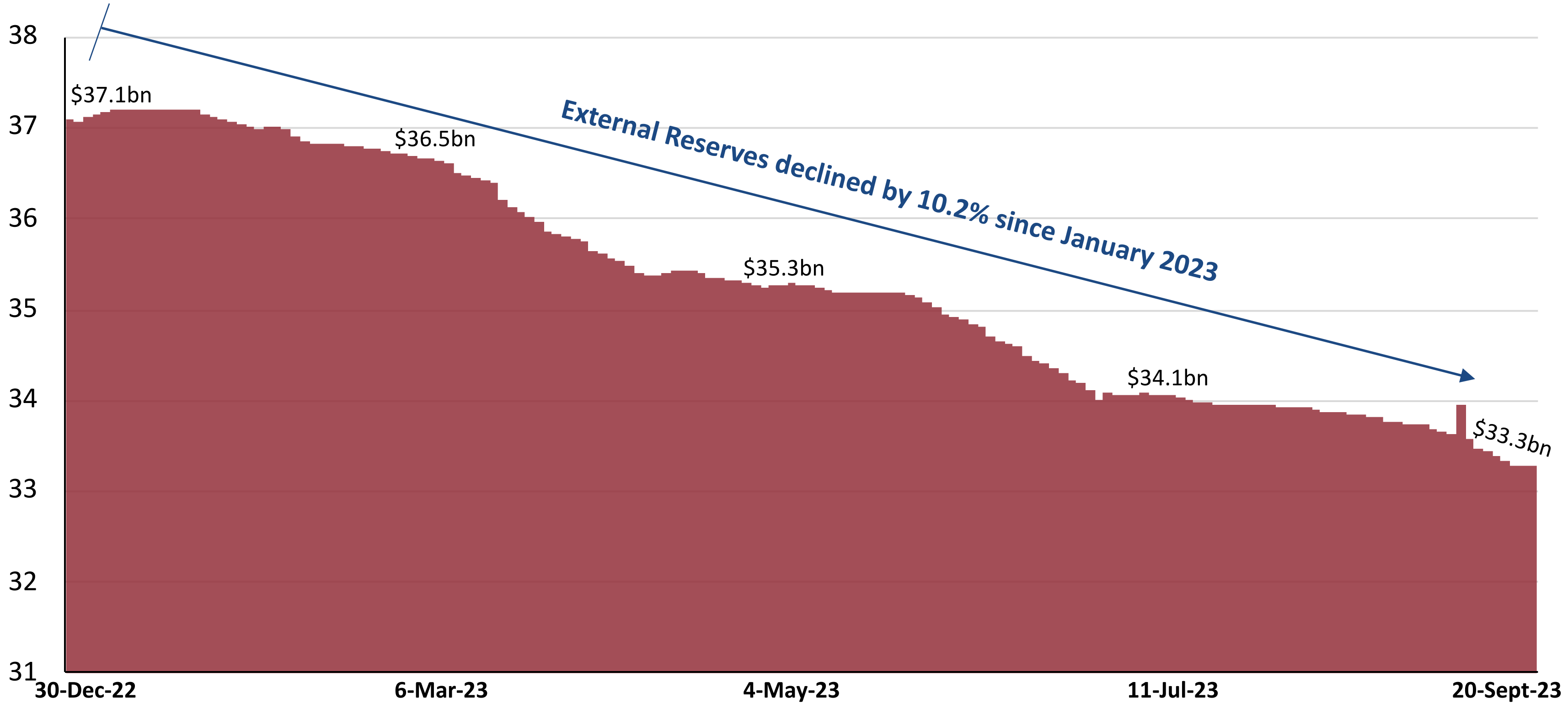
External Reserves trended downwards as CBN continued its intervention in the I&E window

Gross External Reserves (Billion US$)



The pressure on external reserves is largely as a result of:

1. High demand for foreign currency to meet goods imports and service payments.
2. Limited investment inflows due to weak confidence.
3. Limited inflows from crude oil sales due to oil theft.

Clearly, Nigeria does not have the luxury to defend the Naira. Therefore, further exchange rate depreciation should be expected in coming months.

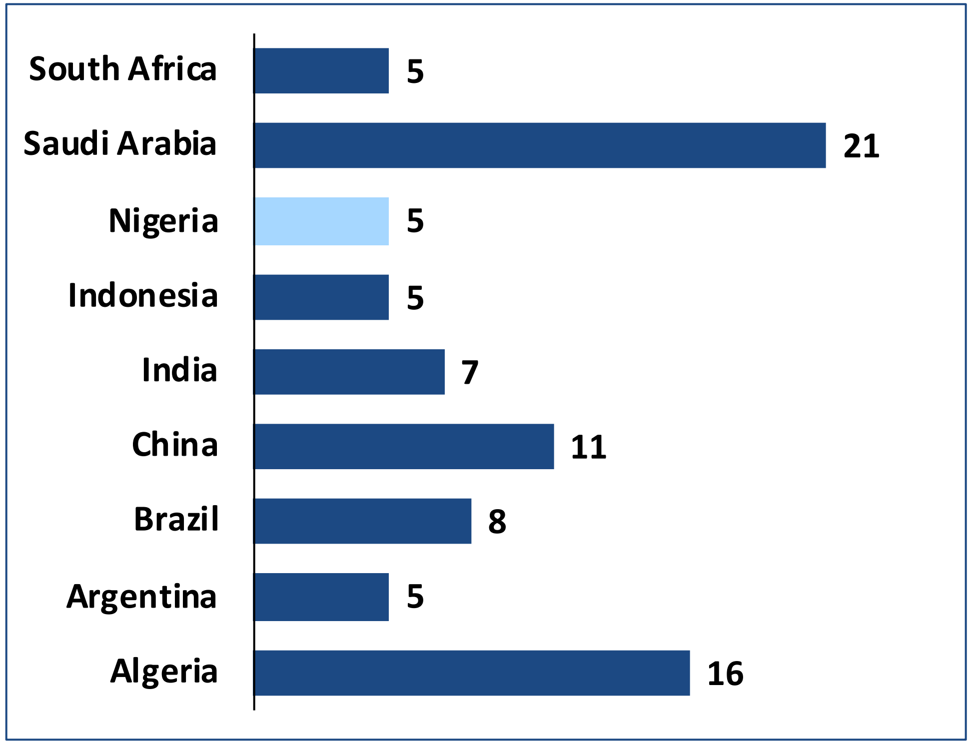
Data Source: Central Bank of Nigeria (CBN)

Continuous practice by the apex bank to "defend" the Naira will only result in rapid depletion of the reserves

What is the optimal level of Nigeria's External Reserves?

- A few reports have estimated the optimal level of Nigeria's external reserves.
- In a report published in CBN journal, M. Tule et al. (2017) estimated Nigeria's foreign reserves maintenance level to cover at least 7.2 months of imports.
- **This implies that at today's level, external reserves maintenance level should stand at +US$38billion.**
- Prior to the removal of the exchange rate peg, the Policy Advisory Council noted that Nigeria needs an "estimate of **$50 - $60 billion** in reserves, with a monthly inflow of at least $6bn-8bn$/month from export earnings and other forms of capital inflow, will be required to defend the Naira at an exchange of N500-N600/$".
- By these standards, current foreign reserve level remains sub-optimal to limit the impact of external shocks and maintain exchange rate stability for longer periods.

Import cover (Number of months), 2022



World import cover was 9 months as at 2022. From the list of countries above, average import cover is 9.2 months.

Data Source: World Bank WDI

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Analyst Views on Growth and Inflation

GDP Growth

- **Nigeria's GDP growth is expected to be lower than 3% in 2023.** The lower growth projection is driven by weak oil production volumes, high inflation which has weakened consumer demand and the FX depreciation. Already as at Q2, financial books of large corporates in the manufacturing sector have shown significant losses due to exchange rate depreciation. We expect this trend to continue for the rest of the year. Large corporates are also expected to devise strategies to cope with the exchange rate adjustments.

Inflation

- The removal of fuel subsidy drove up prices of food and other items. With oil price approaching US$100 pb, there is the possibility of further increase in petrol prices in Q3 and Q4. Alternatively, the government will have to re-introduce subsidies in order to prevent further increase in petrol price. This scenario is likely, although, the amount spent on subsidies is expected to remain far below what was obtainable in the previous administration. **Other factors such as infrastructure deficit, supply chain bottlenecks, port charges, etc are still evident and will continue to drive up prices in the medium term**.

Analyst Views on FX and Reserves

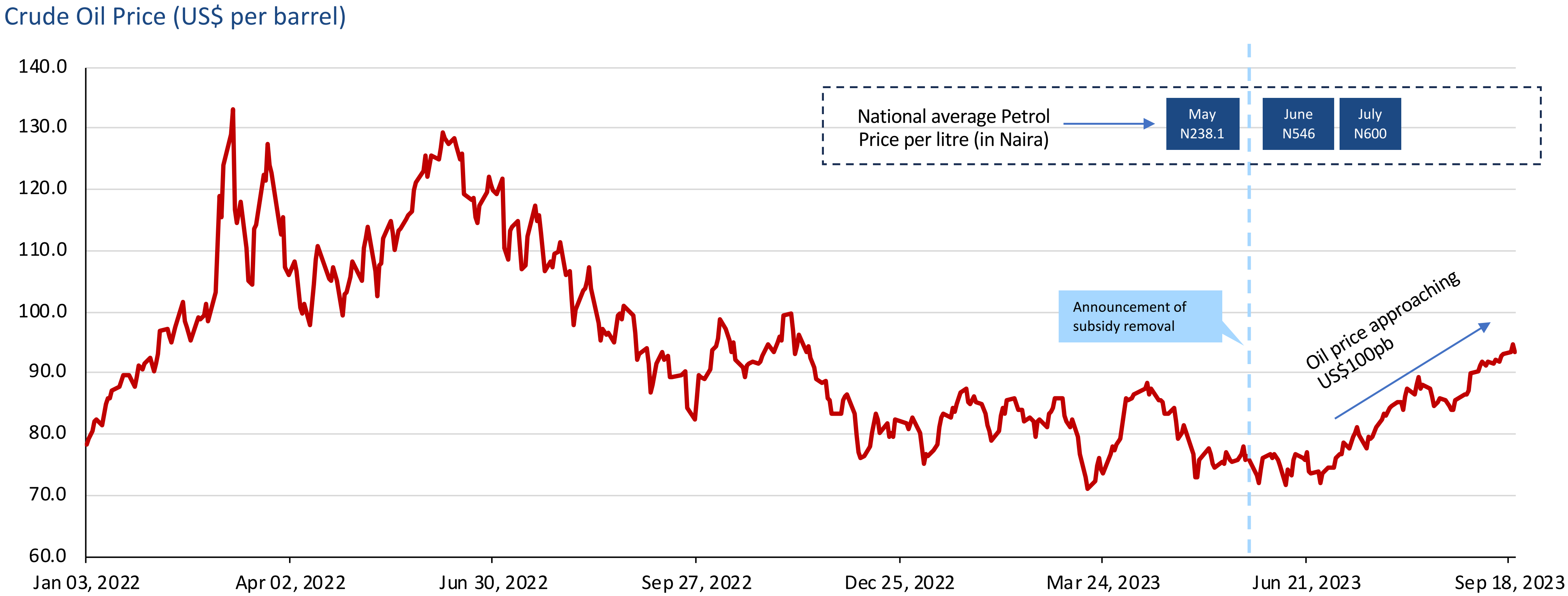
Forex and Reserves

- Despite the exchange rate unification, FX inflows into Nigeria are lagging. On the other hand, the demand for foreign currency remains high thereby creating pressure on the exchange rate. In addition, limited access to FX in the official market (delays, backlogs, documentation requirements) are incentivizing players to purchase FX in the black market.

- On a positive note, the government removed the peg on the official exchange rate in June 2023. This suggests some level of commitment to exchange rate reforms. The President is also at the forefront of wooing investors with the Nigeria-India Business Summit as an example. To win back investor's confidence, we believe that the government must intensify its efforts in curtailing oil theft in the short term and provide a clear roadmap to improve FX inflows and management in the medium to long term to assure top institutional investors. **In the immediate term, we expect the Naira to continue to face pressure in the official market.**

Fiscal and Monetary Policy Update

Upward trending crude oil price raises concerns on the sustainability of fuel subsidy removal

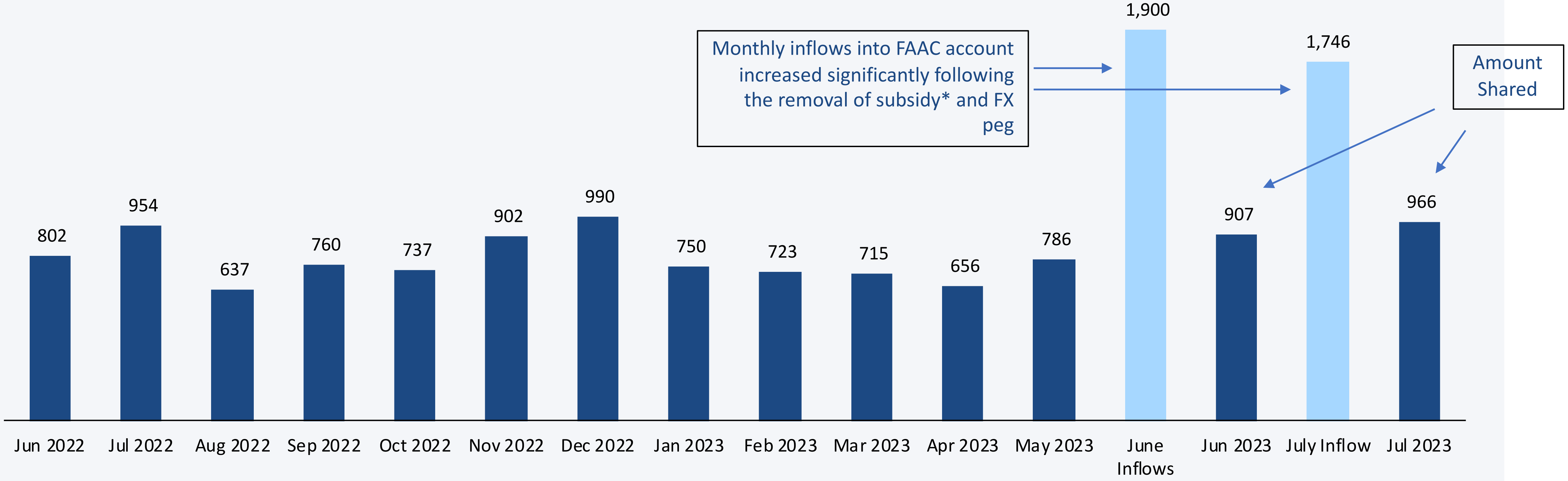


- With crude oil price approaching US$100 per barrel, fuel subsidies are likely to return in order to prevent further increase in the price of petrol.

Data Source: EIU, NBS

Inflows into the FAAC Account increased significantly due to FX reforms and subsidy removal*

Monthly FAAC Allocations (Billion Naira)



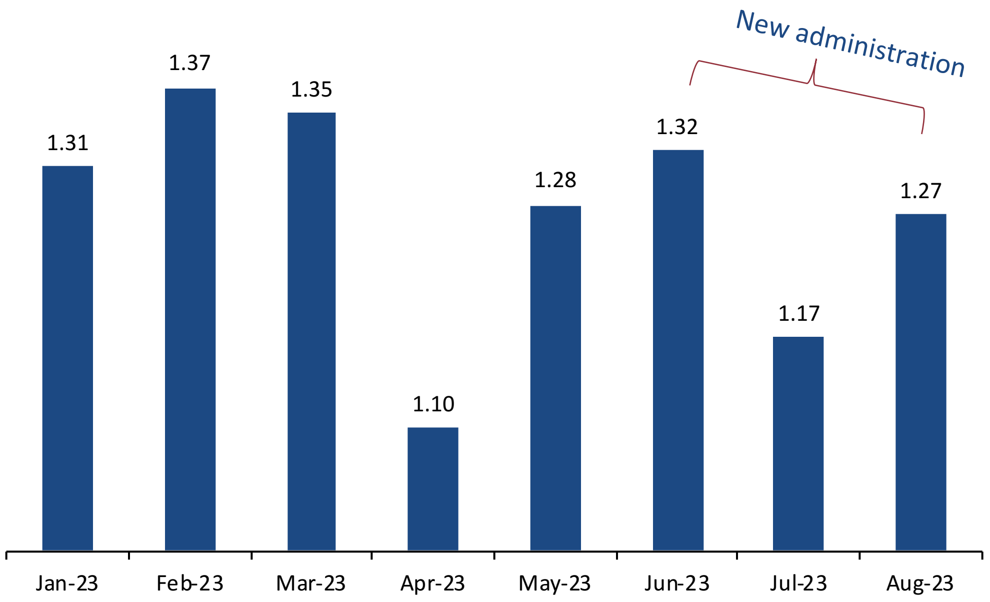
*There are recent reports indicating that fuel subsidy is back. Despite an upward trending crude oil price, the price of petrol remained flat in recent weeks. Reports from several media sources[1] showed that US$220 million (N169.4 billion) was paid by the NNPCL for fuel subsidy for the month of August, 2023.

Data Source: National Bureau of Statistics, Various sources

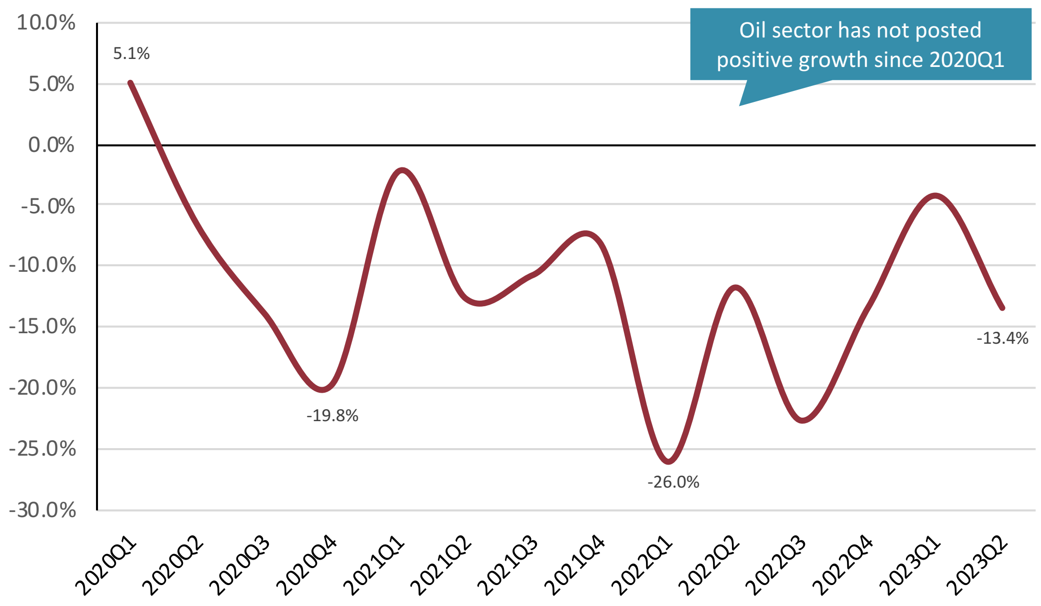
[1] *https://dailytrust.com/subsidy-back-as-fg-pays-n169-4bn-in-august/*
[1] *https://businessday.ng/energy/oilandgas/article/faac-queries-nnpc-over-55m-nlng-dividend/*

Oil production is still challenged despite efforts to tackle oil theft

Nigeria's Crude Oil Production (million barrels per day)



Nigeria's Oil real GDP Growth (%)

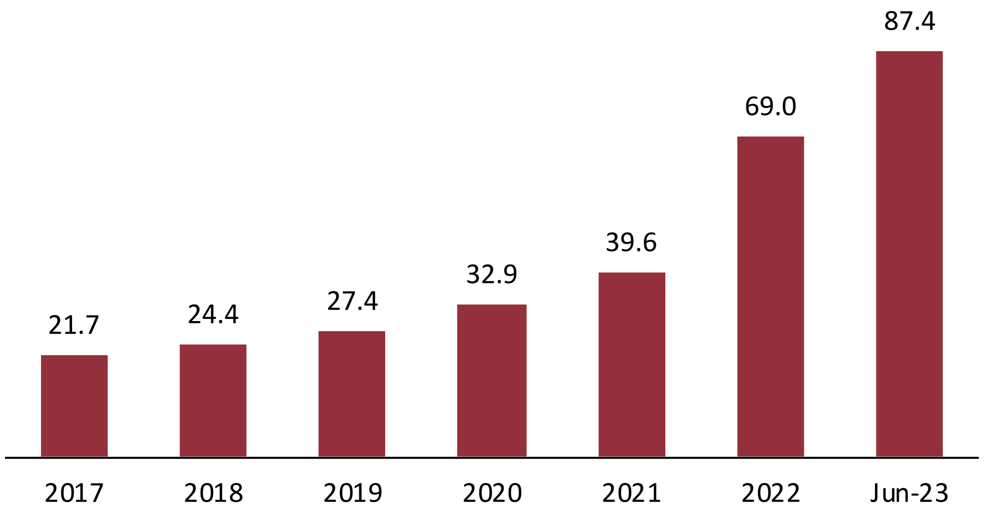


- Limited investment in the sector, and the inability to address oil theft continue to have negative impact on the sector's output.

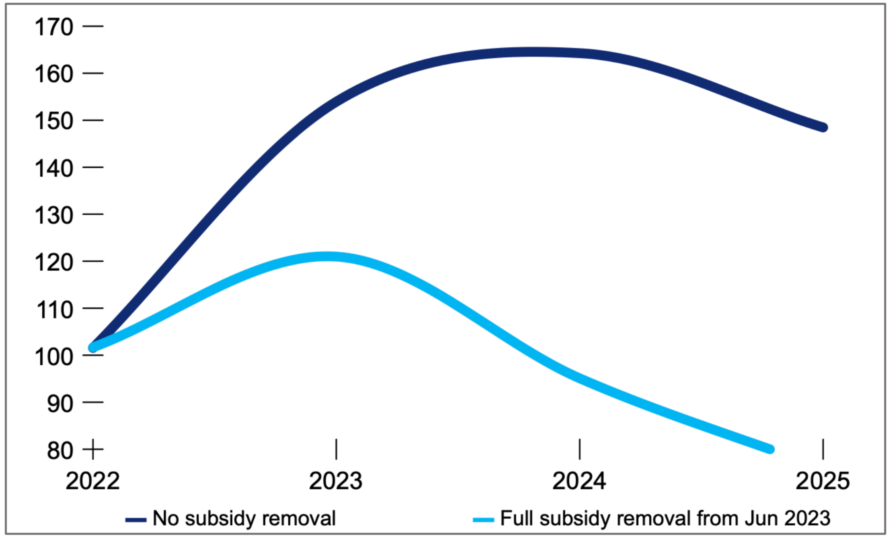
Data Source: OPEC, NBS

Public Debt debt stock rises to N87.4 trillion (US$113.4 billion) in June 2023

Nigeria's total Public Debt Stock (Trillion Naira)



Debt Service (% of revenues)



- The Debt Management Office recently included the N22.7 trillion ways and means in the country's public debt stock for June 2023. Actual figures in June (N87.4 trillion) exceeded the DMO's initial projection of N77 trillion earlier in the year.

- According to the World Bank estimates, with fuel subsidy removal, debt servicing is expected to reach a peak of 120% of revenue in 2023 and trend downwards thereafter. Fiscal gains from subsidy removal and FX reforms will be more visible in 2024 and 2025.

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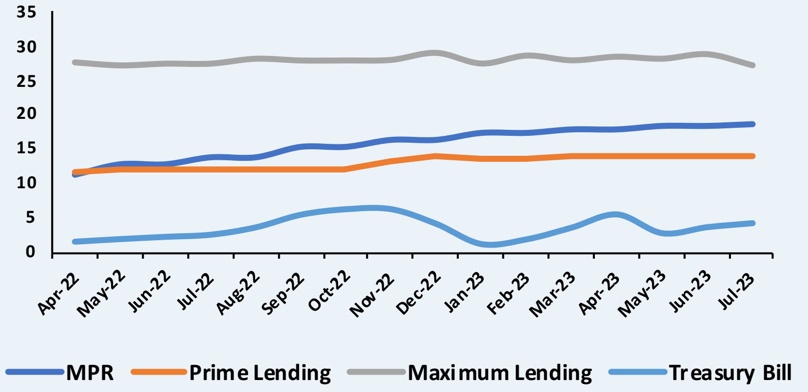
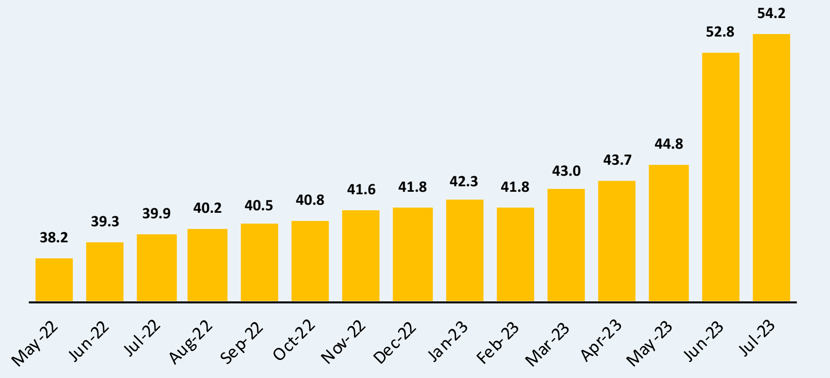
Data Source: Debt Management Office, World Bank

Monetary Policy: Key Charts

Lending Rate (%)



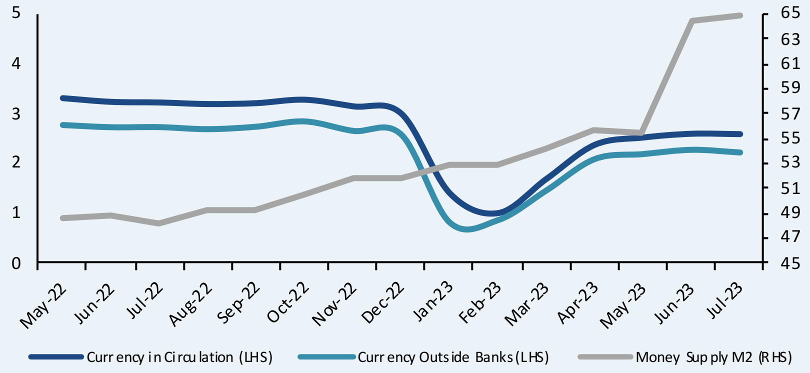
Credit to Private Sector (Trillion Naira)



Financial Deepening Indicators (%)

	Jan-22	Dec-22	Jan-23	Mar-22	Jun-22	Jul-23
Currency/M2	7.42	5.82	2.62	3.11	4.04	4.00
Currency/GDP	1.65	1.51	0.70	0.84	1.31	1.30
M2/GDP	22.22	25.96	26.57	27.18	32.29	32.57
CPS/GDP	17.65	20.97	21.20	21.58	26.49	27.17
Stock Market Capitalization/GDP	12.60	14.00	14.55	14.82	16.65	17.56

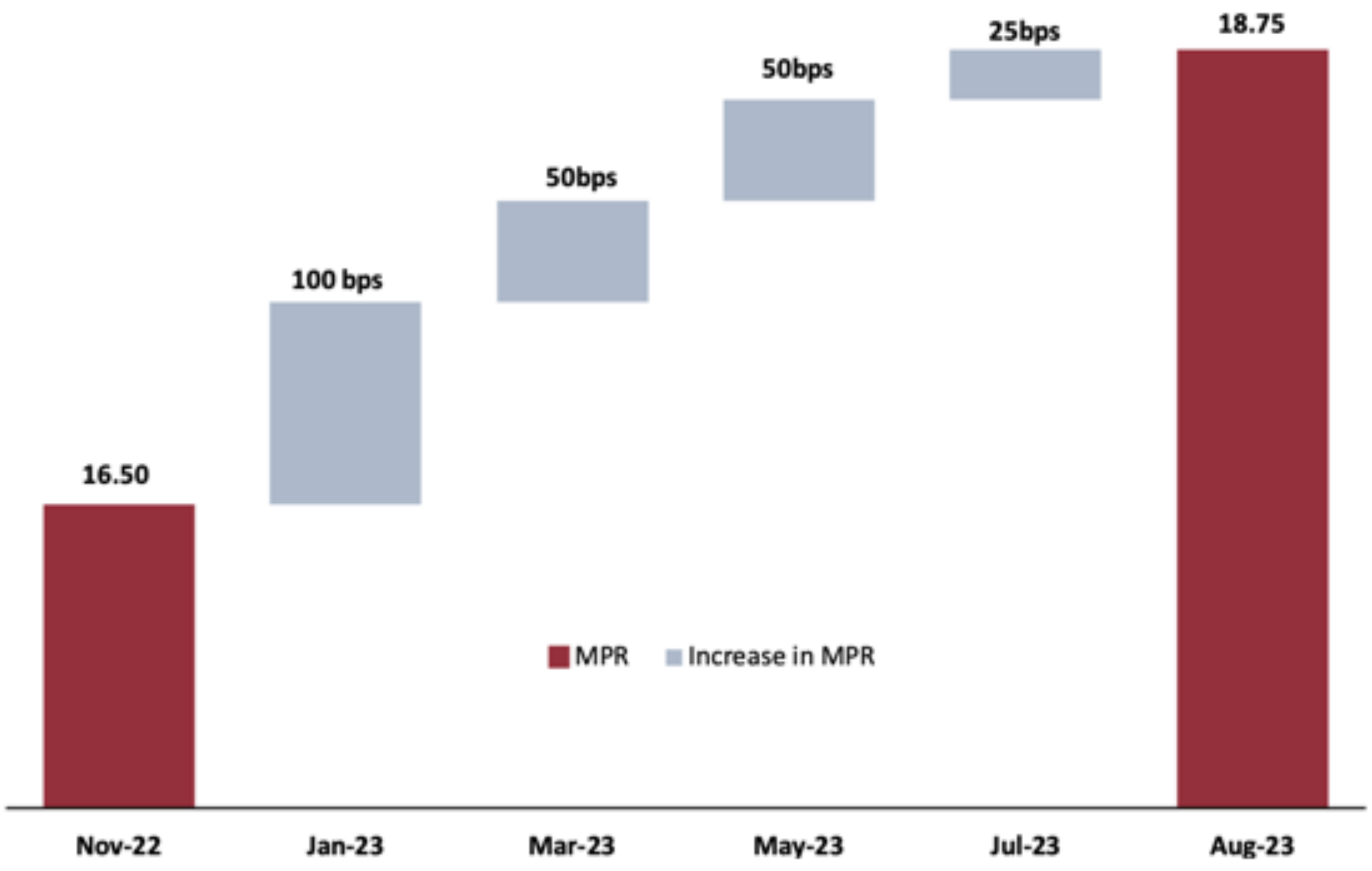
Currency vs Money Supply (N'Trillion)



Data Source: Central Bank of Nigeria, FMDQ, NBS

CBN MPC raised Monetary Policy Rate to 18.75% in July 2023 but postpones MPC meeting for September 2023

Monetary Policy Rate (%)



- The Central Bank of Nigeria's Monetary Policy Committee (MPC) raised the Monetary Policy Rate (MPR) in its fourth meeting in 2023 from 18.5% to 18.75% in July 2023. This represents the eighth consecutive MPR hike.
- The MPC noted continued inflationary pressures following the FX reforms and fuel subsidy removal as major considerations in their decision to hike rate.
- We observe that the 25 basis point increase in the MPR is the lowest increase since the May 2022. This could mean that the MPR is likely to increase marginally or remain unchanged in subsequent MPC meetings of the year.
- The postponement of the MPC meeting for September implies that rates will remain unchanged in the month.

Data Source: Central Bank of Nigeria

President Tinubu nominates Yemi Cardoso as the new CBN Governor

Yemi Cardoso

Mr Olayemi Michael Cardoso is a chartered stockbroker, banker, and public policy expert.

Cardoso is a member of the advisory board of Lagos Business School and chairman of the board of the African Venture Philanthropy Alliance. He is a Fellow of the Chartered Institute of Stockbrokers.

- Former Commissioner, Lagos State Ministry of Economic Planning and Budget.
- Former Chairman, Board of Citibank Nigeria Ltd.
- Master's degree in Public Administration, Harvard Kennedy School of Government.
- Bachelor's degree in Managerial and Administrative Studies, Aston University

Key tasks awaiting the new CBN Governor

- Ensure exchange rate stability
- Grow the external reserves
- Deploy proper interest rate management to meet the goals of investors and the real sector
- Restore the MPR as the anchor rate
- Intensify engagements with local and foreign investors on key monetary policy goals and strategies to build confidence in the economy
- Pursue price stability and low inflation rate by complementing the roles of fiscal policy
- Ensure financial stability
- Strengthen the governance structure of the CBN and protect the Bank from being a “the lender of FIRST resort” to the federal government
- Limit the developmental functions of the CBN
- Ensure frequent and timely publication of CBN accounts and other relevant documents to ensure transparency and build confidence of stakeholders

Analyst Views and Outlook on Monetary Policy

Slowdown in rate hike expected

- For the first time since the rate hike began in May 2022, the CBN MPC, in July 2023, raised the MPR at a slower pace by 0.25 percentage point. Interestingly, looking at the voting patterns of the MPC members, 6 members voted to raise the MPR while 5 members voted to hold the MPR. This suggests that more MPC members are tilting towards a hold, following the limited effectiveness of the MPR in curtailing inflation.

- With this and ahead of the MPC meeting in September 2023, we expect the MPC to either hold rates or raise rates by a smaller magnitude to 19%. We believe a raise is more likely.

A new CBN Governor is on the way

- With the nomination of Mr Yemi Cardoso as the new CBN Governor, investors and other stakeholders will be looking forward to how the CBN will be managed and repositioned to achieve key goals of price stability, exchange rate and financial stability. Key areas of interest will include the CBN Governor's views towards interest rate management, exchange rate management, crypto currency, true position of the reserves and the apex bank's role in financing government (Ways & Means) and in development financing.

- Currently, very little can be said on the proposed Governor's position on these issues. However, we expect to see a pragmatic and engaging CBN Governor that will work to win the confidence of investors and other stakeholders.

Analyst Views and Outlook on Fiscal Policy

- **The removal of fuel subsidy and FX reforms will improve government finances:** The government has been the major beneficiary of these twin reforms of subsidy and FX. Inflow into FAAC account has increased from about N800 billion monthly to over N1.7 trillion since the implementation of both reforms. This higher inflow will improve fiscal deficit and debt sustainability ratio in the short term. It could also slow down the pace of debt accumulation in Q3 and Q4 of 2023. In a scenario where subsidy returns, we believe that the subsidy payments are likely to be lower than what was paid in the previous administration especially as a significant part of the price burden has been transferred to households and businesses at fuel pumps. However, the return of subsidies will raise concerns from private sector players, particularly potential investors in the midstream oil and gas industry and this could slow investment in the sector.

- **Government effectiveness:** How and what these fiscal gains will be spent on are major areas of concern. This is partly because the government is yet to embark on any major budget reform. Such reforms could begin in Q4, when the preparation of the 2024 budget will commence. With the significant growth in government revenue, a N30 trillion 2024 budget will not be surprising. We however, expect to see the prioritisation of capital projects in the budget as well as key sectors like education and health care.

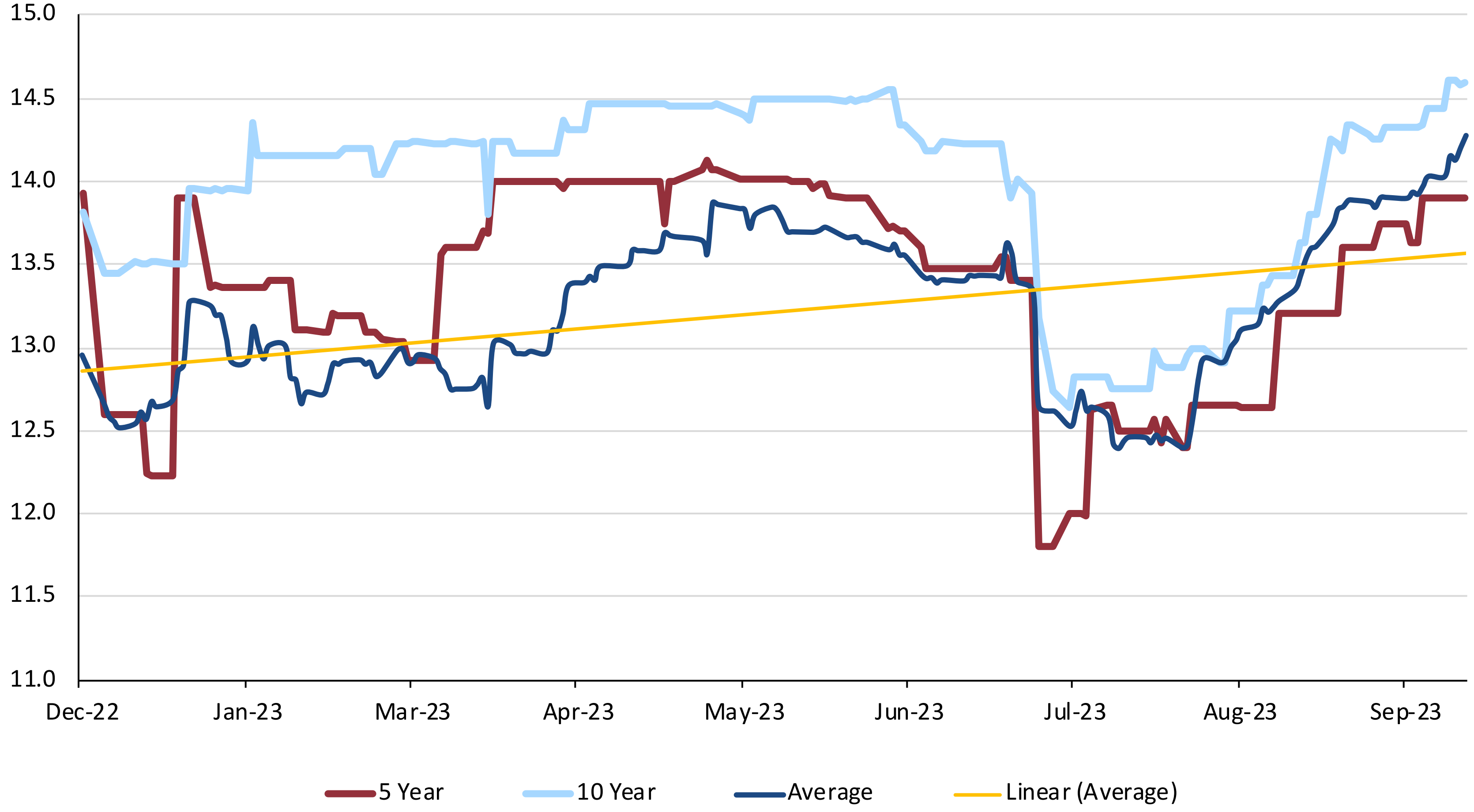
- **High cost of governance remains a pending issue that needs to be resolved.** With an average of 20.9% of actual FGN budget expenditures allocated to capital projects in the last two years, it is imperative for the new administration to prioritise budgetary reforms. The government must reduce the over-bloated cost of governance – particularly overheads and transfers – to ensure enough funds are available for infrastructure and other development purposes. In addition, there must be significant efforts to block leakages and ensure transparency of government finances in the new administration.

SECTION 04

Nigeria's Financial Market Update

Mixed sentiment trailed the capital market following the emergence of a new President

Trend of FGN Bond Yields (%)

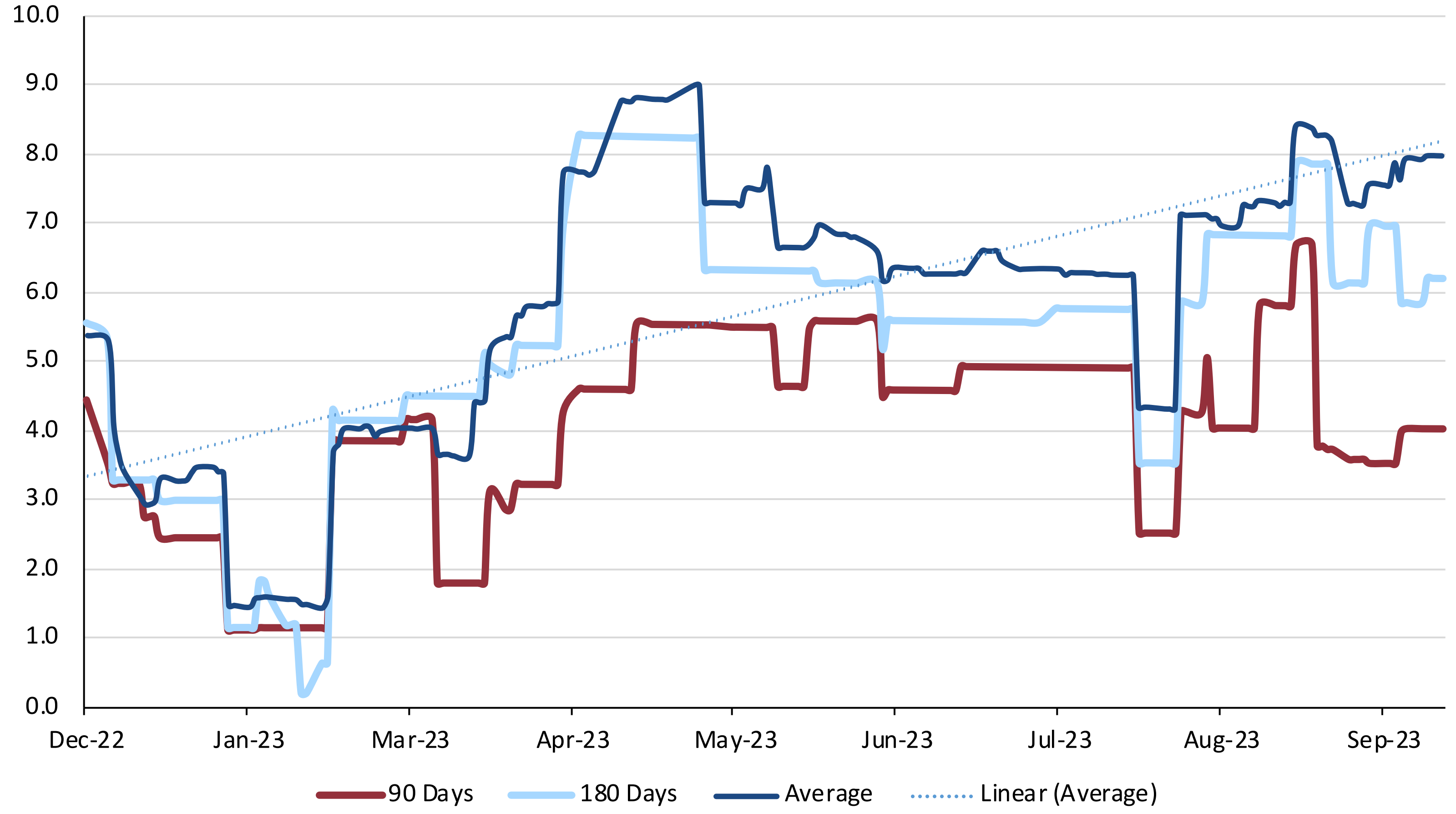


- As at May 29, average yield in the FGN bond market stood at 13.63%. It dipped to 12.39% due to improved confidence and buy pressure.
- Average yield in the market increased to 14.28% as of September 15. Quarter to date, average yield in the market has increased by 1.67 percentage points from 12.61% at the close of 2023Q2.

Data Source: FMDQ; Investing.com *Note: End period for the data is September 15, 2023*

NT-Bills market reaction to the new President is also mixed as yields increased

Trend of NT Bill Yields (%)



- Though initially docile to the emergence of the new administration, the treasury bills market experienced buy pressure as average yield dipped to 4.31% in July from 6.8% before May 29.
- The average yield in the NT-Bill market has since been elevated as it increased to 7.98% as at September 15, 2023.
- Quarter to date (Q3), average yield in the NT-Bill has increased to 7.98% from 6.35% at the start of trading in the quarter.

Data Source: FMDQ

Note: End period for the data is September 15, 2023

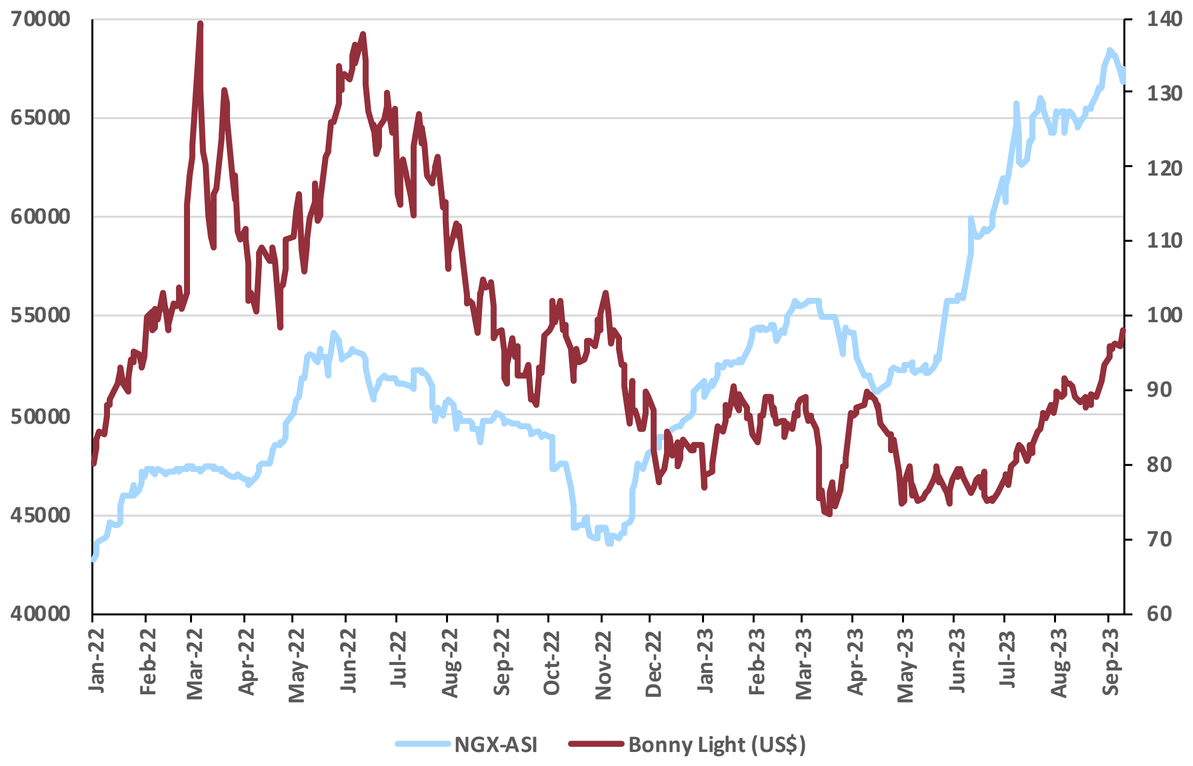
Equity market has sustained positive trajectory since May 29

Equity Market Performance

NGX-ASI	YTD	QTD
Open (N'Bn)	51,251.06	60,968.27
Close (N'Bn)	67,395.74	67,395.74
% Change	31.50	10.54

MARKET CAP	YTD	QTD
Open (N'Bn)	27,915.26	33,197.83
Close (N'Bn)	36,886.17	36,886.17
% Change	32.14	11.11

NGSE - ASI (Index Points) vs Nigerian Bonny Light Crude Oil Price (US$ Per Barrel)

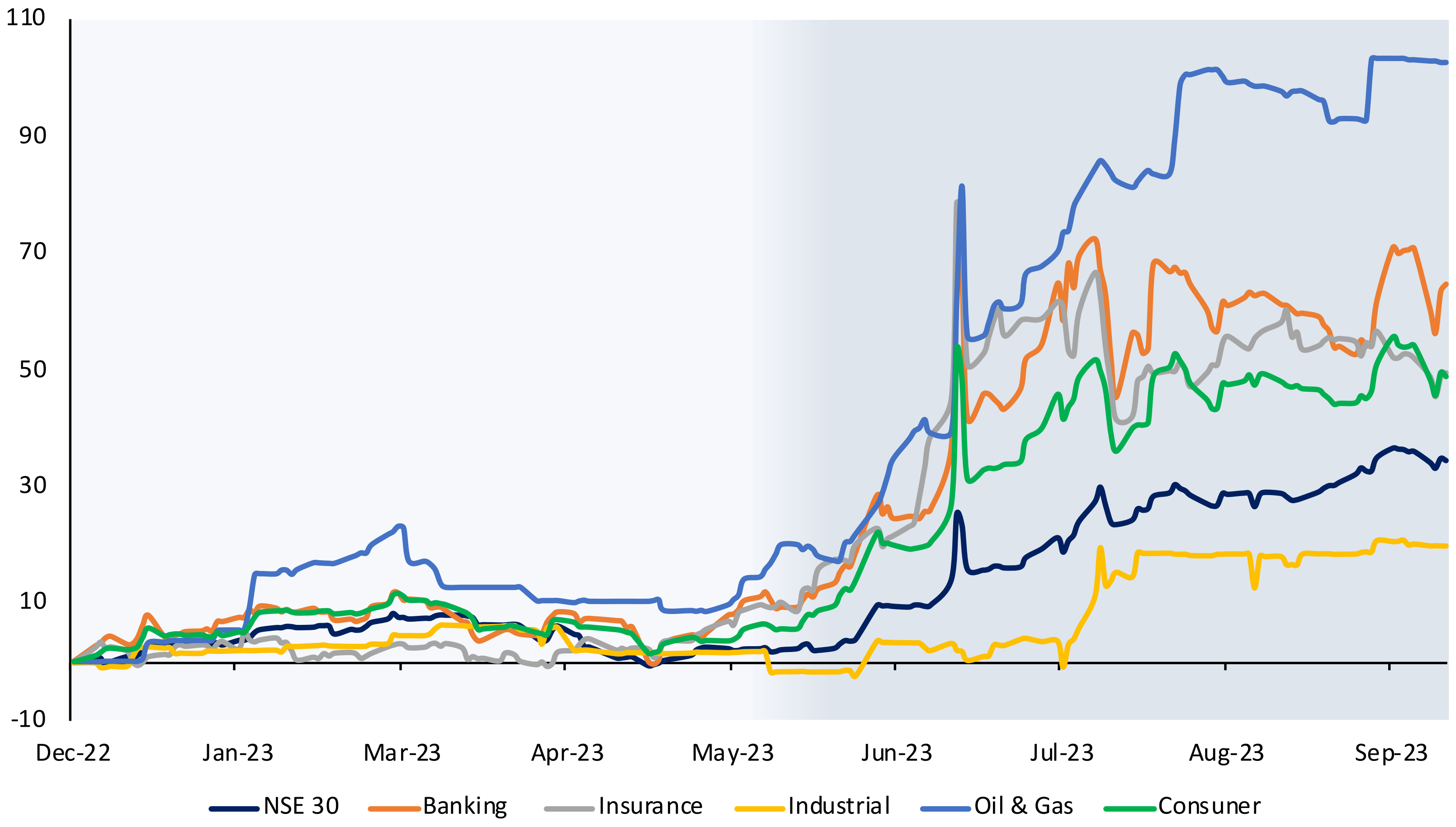


Source: NGX, CBN

Note: End period for the data is September 15, 2023

Positive sentiment in the equity market permeates across all sectoral indices on the NGX

Trend of Sectoral Performance (YTD, %)



SECTORS	YTD
NSE ASI	31.50
NSE 30	34.64
Banking	64.72
Insurance	49.60
Industrial	25.31
Oil & Gas	102.66
Cons. Goods	83.12

SECTORS	QTD
NSE ASI	10.54
NSE 30	12.70
Banking	6.55
Insurance	-5.85
Industrial	15.90
Oil & Gas	20.81
Cons. Goods	20.53

Source: NGX, Investing.com *Note: End period for the data is September 15, 2023*

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Along with their book performance, top banking stocks have performed well in the year

Year to Date Performance of Large Cap Stocks in 2023

Stock	MARKET CAP (N'bn)	Share Outstanding (Million Units)	Market Price (N)	Price Gain (YTD, %)	H1-2023 PAT (N'bn)	PAT Growth (%)	Dividend (N/Share)	Dividend Yield (%)
DANGCEM	5,964.2	17,040.5	350.0	34.1	178.6	3.8	5.0	1.4
MTNN	5,706.6	20,995.6	271.8	26.4	128.7	-29.3	5.6	2.1
AIRTEL	4,754.1	3,758.2	1,265.0	-22.6				
BUACEMENT	3,044.4	33,864.4	89.9	-8.0	63.6	3.7	2.8	3.1
ZENITHBANK	1,043.9	31,396.5	33.3	38.5	291.7	162.0	0.5	1.5
GTCO	1,036.0	29,431.2	35.2	53.0	280.5	262.0	0.5	1.4
SEPLAT	982.7	588.4	1,670.0	51.8	140. 6	23.2		
STANBIC	932.9	12,957.0	72.0	115.3	67.9	121.5	1.5	2.1
NESTLE	832.3	792.7	1,050.0	-4.6	-49.9	-280.1	36.5	3.5
GEREGU	764.0	2,500.0	305.6	105.1	-8.1	-11.5	8.0	2.6
FBNH	640.7	35,895.3	17.9	63.8	187.2	231.1	0.5	2.8
ACCESS	611.4	35,545.2	17.2	102.4			1.3	7.6
UBA	562.6	34,199.4	16.5	116.5	378.2	437.8	0.5	3.0
LAFARGE	467.1	16,107.8	29.0	20.8	-35.5	-5.2	2.0	6.9
NB	414.1	10,276.1	40.3	-1.7	-47.6	-354.0	1.0	2.6

Source: NGX   *Note: End period for the data is September 15, 2023*

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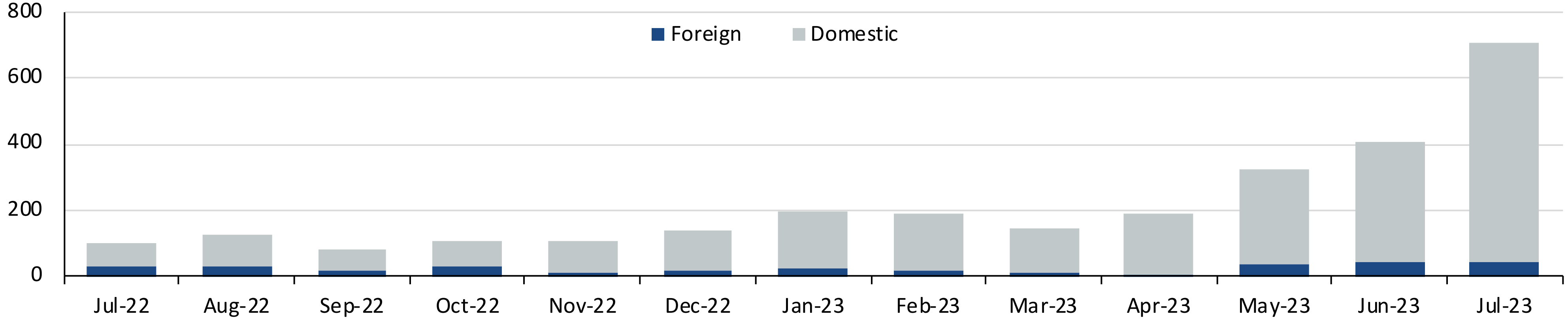
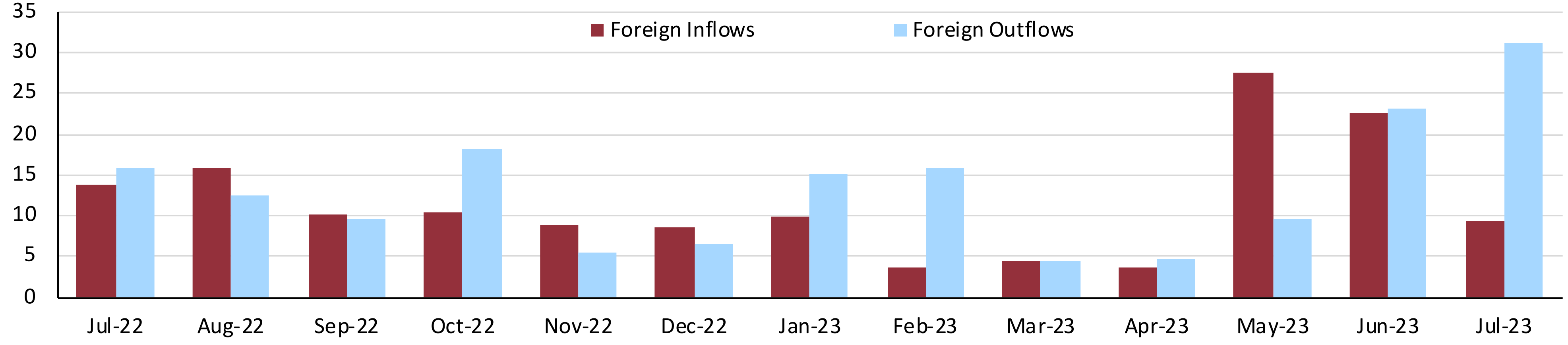
Equity market participation bolstered by the change in administration

NGX Domestic & Foreign Participation (N' Billion)



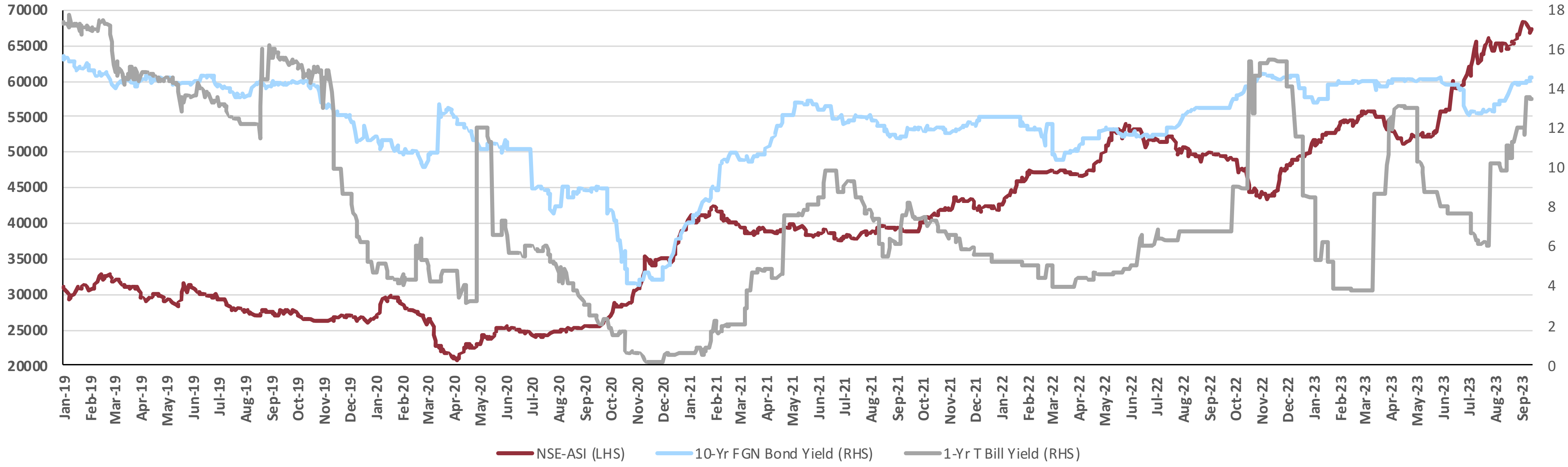
NGX Foreign Flows (N' Billion)



Source: NGX

Equity market and bond markets tread similar path on the back of equity buy-pressures

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



The equity and bond markets moved in similar direction for the first time in a while as the NGX-ASI and yields on 10-Year FGN Bond and 1-Year Treasury Bill trended upward. This is motivated by the improved market confidence being enjoyed in the equity market. Meanwhile, the buy pressure doused in the bond market due to the perceived continuation of fuel subsidy as pump price is not reflective of market fundamentals.

Data Source: NGX /investing.com   *Note: End period for the data is September 15, 2023*

Analyst Views and Outlook

Fixed Income Market

- The emergence of Bola Tinubu as Nigeria's President sent positive signal across the financial market as all segments of the market experienced buy pressures. This sentiment was also strengthened by his immediate announcement of the discontinuation of fuel subsidy and FX reforms in June.
- The confidence in the FGN Bond market became temporary as yields began to rise, following the government's announcement that the pump price of petrol will not increase further, despite an upward trending oil price and depreciation of the Naira. The statement negates the idea of complete market deregulation.
- Nonetheless, we expect yields to remain high in the fixed income market. As yields in the global market are not subsiding, more sell-offs are expected, which will pressure yields upward in Nigeria.
- The government has a huge borrowing need, despite improving revenue. Since July, the government has borrowed N1.60 trillion and N1.63 trillion from the treasury bill and bond market, respectively, signaling that the fiscal pressure may continue in the short term. A high yield is also needed to attract investors.

Equity Market

- The equity market rode on the renewed confidence in the market that accompanied various reforms made by the new government, particularly, the forex market unification. This has motivated increased participation of foreign investors in the market.
- A total of N2.47 trillion fixed income maturities in 2023Q1 favoured the equity market. In addition, a total of N3.27 trillion fixed income maturities are expected in 2023Q4, a substantial part of this amount will end up in the equity market.
- As it stands, the Nigeria Exchange is one of the best performing stock market in the world. The expected liquidity and the implementation of reforms that build investors' confidence will strengthen the performance of the equity market in 2023Q4.
- The performance of the market is expected to cross 50% at the end of the year on the back of strong gains across sectors, particularly the banking stocks.

Reforms and Policy Signals

On May 29, President Tinubu disclosed a growth agenda of "not less than 6%" in the next few years

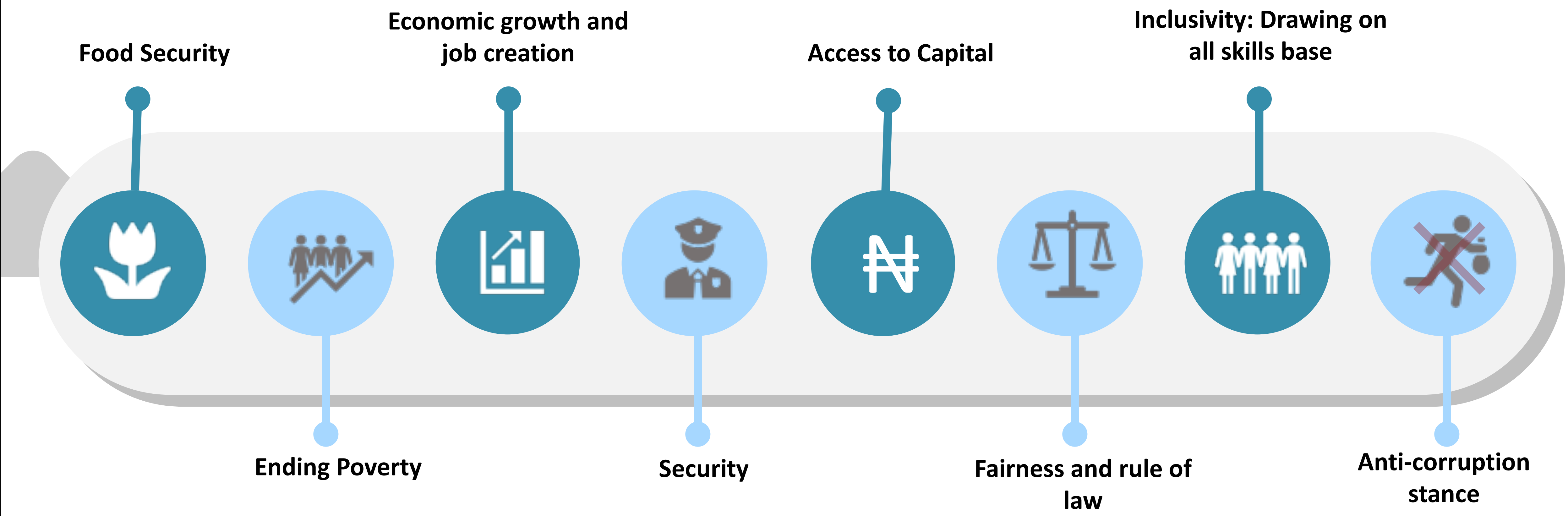
During President Tinubu's inaugural speech, he noted **"on the economy, we target a GDP not less than 6% growth and significantly reduce unemployment"**. The President aims to achieve this target by focusing on three main areas:

1. **Implement Budget Reforms** to stimulate the economy while being mindful of inflation.
2. **Implement Industrial Policies** by adopting fiscal measures to promote domestic manufacturing and lessen import dependency.
3. **Provide Electricity to businesses and households** by almost doubling power generation and strengthening transmission and distribution networks.

Core to achieving the President's agenda are low interest rates, unified exchange rate, market-determined price for petrol, investment in infrastructure, improving security and productivity in agriculture.

SECTION 05

The President has also outlined 8 priorities to improve social and economic outcomes



To deliver this agenda, the President inaugurated a cabinet with 45 ministers

Key government Ministries and Committee

Ministry/Committee	Minister/Lead
Ministry of Finance and Coordinating Minister of the Economy	Wale Edun
Ministry of Industry, Trade and Investment	Doris Anite
Ministry of Agriculture and Food Security	Abubakar Kyari
Ministry of Solid Minerals Development	Dele Alake
Ministry of Transportation	Adegboyega Oyetola
Ministry of works	David Umahi
Ministry of Power	Adebayo Adelabu
Minister of State, Petroleum Resources	Heineken Lokpobiri
Presidential Committee on Fiscal Policy and Tax Reforms	Taiwo Oyedele, Chairman

In 2023Q1, we highlighted four key priorities for the new administration to implement to deliver an inclusive economy

	Reform/Initiative
Priority 1	Attract and retain Investments into key sectors in Nigeria
Priority 2	Pursue macroeconomic stability and industrial reforms
Priority 3	Remove Petrol Subsidies
Priority 4	Ensure social inclusion and security for all

Since June 2023, some key initiatives have been implemented

- Suspension of the 5% excise tax on telecommunication services
- Removal of fuel subsidy
- Suspension of excise duty increase on locally manufactured products
- Removal of exchange rate peg
- Disbursement of N2bn out of the N5bn subsidy removal palliative to states.
- Signing of Electricity Bill into law
- Reduction of CRR for merchant banks from 32.5% to 10%.

The Minister of Finance and Coordinating Minister of the Economy itemized some plans to improve the Reserves

At the presentation of the 8-point agenda in September 2023, Mr Wale Edun highlighted 3 points to attract foreign currency that are outside the system into the market to improve the reserve.

Domiciliary Account

01

Provide incentives for individuals and institutions to make use of funds in their domiciliary account for investment.

Funds Abroad

02

Grant incentives to Nigerians living in Nigeria with funds abroad to invest these funds in Nigeria.

Remittances

03

Target more diaspora remittances from Nigerians living abroad.

At the core of Nigeria’s exchange rate policies should be the need to instil confidence on the economy

Beyond FX reforms, the government will need to target rapid and consistent expansion of the real sector as well as improve social inclusion

	Major Policy Goal	Actionable steps
1.	**Target rapid expansion of the private sector (investment)**	• Redirect government spending priorities towards areas that will foster private sector development- infrastructure, power, port access roads. • Consider the use of PPPs for new and large infrastructure projects such as interstate railway. • Implement sectoral reforms – key sectors include manufacturing, power, transport, oil and gas.
2.	**Improve government efficiency**	• Begin a review of the 2023 budget to scrutinise projects and ensure effective delivery. • Reform key government agencies such as the Nigeria Customs Service, NNPC, NPA, NIMASA to ensure efficiency.
3.	**Ensure better institutional coordination**	• Ensure consistent inter-ministerial dialogues chaired by the President • Mandate quarterly press briefing of heads of MDAs on reform progress in line with agreed targets/performance contracts.
4.	**Implement social support**	• Review the national social register along with state governments and implement a comprehensive and transparent social transfer for the poor and vulnerable across the country • Review the current minimum wage • Prioritise the development of education and healthcare sectors by increasing allocation to the sectors, and ensuring effectiveness, transparency and better governance.

Macroeconomic Projection for 2023 – 2024

Macroeconomic Projection for 2023: Rationale for the Three Scenarios*

Scenario	Rationale
Best Case	In this scenario, OPEC and non-OPEC countries intensify crude oil production cuts to increase the price of crude. This scenario assumes an average oil price of US$99 per barrel for 2023. On the local front, the Nigerian government intensifies efforts to curb oil theft and illegal bunkering and therefore, Nigeria produces 1.9 million barrels of crude oil per day. As a result, foreign currency inflows increases significantly. Also, subsidy payment resurfaces, which slows down the growth of oil revenue. Capital spending rises to N4 trillion in 2023 – this could have been much higher in the absence of subsidy payments.
Moderate Case	In this scenario, crude oil price averages US$80 per barrel as oil supply improves. In order to maintain a high price, OPEC+ members revisit the decision to cut oil supply. At US$80 per barrel, and in the absence of huge domestic refining capacity, fuel subsidies payment resurfaces in Nigeria, though marginal. Nigeria's crude oil production averages 1.35 mbpd, as little progress is made in addressing oil theft. In addition, FGN spends N3 trillion on capital project, which is a budget implementation rate of ~61%.
Worst Case	This scenario assumes a bleak global outlook. Oil price falls as non-OPEC countries increase oil supply to achieve low price and tackle high energy costs. Crude oil price falls to US$44 per barrel as a result. Locally, oil theft continues and Nigeria's output falls to 0.9 mbpd. There are no subsidy payments in this scenario. Government revenue is severely challenged following increasing oil theft and spending on capital project falls to N790 billion in the year.

**All scenarios assume the absence of huge domestic refining of petroleum products*

Macroeconomic Scenario for 2023

Scenario	Assumptions	Outcome
Best Case	• Oil price averages US$99 per barrel • Demand for Nigerian crude improves - Nigeria produces 1.9 million barrels per day • Government capital spending at N4 trillion • Full implementation of sectoral support interventions	• GDP Growth at 3.5% • Inflation Rate at 21% • External Reserves at US$36.4bn • Average Exchange Rate at N580/US$
Moderate Case	• Oil price averages US$80 per barrel • Crude oil production at 1.35 million barrels per day • Government capital spending at N3 trillion • Implementation of sectoral support interventions	• GDP Growth at 2.56% • Inflation Rate at 24.5% • External Reserves at US$34.5 billion • Average Exchange Rate at N605/US$
Worst Case	• Oil price averages US$44 pb • Lower crude oil production- Nigeria produces 0.9 million barrels per day • Government capital spending at N790 billion	• GDP Growth at 1.2% • Inflation Rate at 32% • External Reserves at US$29.5 billion • Average Exchange Rate at N650/US$

NB: Average official exchange rate was N459.5/US$ from January to June 9, 2023 before the FX reform

Projection for 2023 – 2024 for Nigeria

	2021	2022	2023f*	2024f*
Real GDP Growth	3.4%	3.1%	2.56%	3.5%
Inflation rate	17%	18.8%	24.5%	23.1%
Average Exchange rate (N/US$)	410.0	423	605	803
Monetary Policy Rate	11.5%	17.5%	19%	14%
External Reserves (Average, US$ Billion)	35.8	38.8	34.5	35.7
Treasury Bill (91-Day)	3.7%	4.4%	6.1%	5.5%
Treasury Bill (182-Day)	5.2%	5.6%	8.0%	6.3%
Treasury Bill (270-Day)	6.2%	7.3%	11.1%	9.0%
Treasury Bill (360-Day)	6.4%	8.6%	13%	12.0%

**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, movement of oil price, Naira scarcity and pace of reforms by the new administration.*

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