

## 2023 Macro Economic Outlook Report **Summary.**

### The Many Faces of Nigeria in 2023: **Understanding the Economics of Change.**

Outlooks are like weather forecasts; they can be instructive but not conclusive. For Proshare's 2023 Economic Outlook, the analysts came to conclusions based on the quality and quantity of best-in-class data available as of the time of report writing. 2023 is a tricky year to make firm statements on plausible economic outcomes due to Security fragility, Supply-side Inflation, Politics and the uncertainty of candidate reliability, and Global economic shifts. (pg. 3)

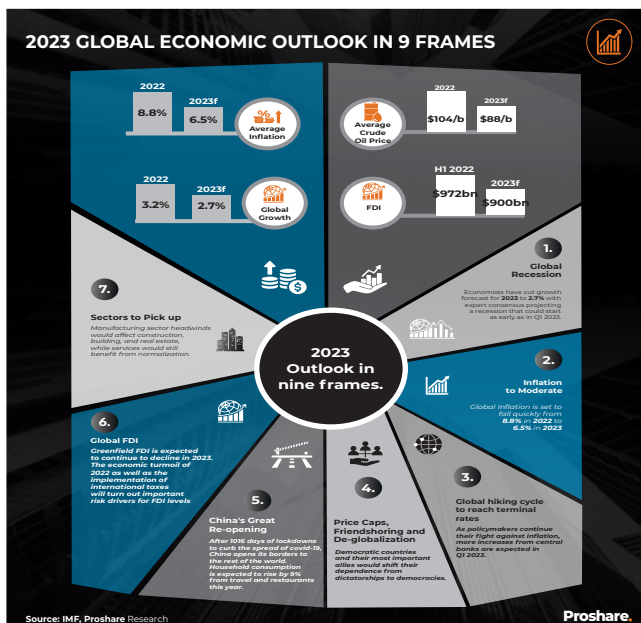
For 2023, concentration on commodities could be Africa's undoing as strategic western economies concentrate on the upper end of what analysts call the smile curve. (pg. 4)

The curve reflects the fact that most modern production value is in the areas of intangibles such as patents, copyrights, trademarks, research & development, and franchising. Returns in manufacturing are thinning out as fixed and operating costs rise. (pg. 5)

Nigeria may need to adopt a two-track growth approach with an increase in manufacturing production accompanied by a deliberate approach to internalizing the benefits of creative and scientific efforts. (pg. 5)

### Introduction.

- In 2023, attention would remain fixated on EMDEs like Sri Lanka, Turkey, and Ghana, all of which struggled in 2022 with atrociously high levels of inflation and a substantially devalued currency. (pg. 17).



### Nigeria Beyond the 2023 General Elections.

- Although there are thirty-six (36) candidates, based on the Independent National Electoral Commission's (INEC) list for the 2023 presidential election, analysts say four major candidates are competing to lead the country for the next four years. (pg. 20)
- The election is expected to be keenly contested given the diversity of the candidates in ethnicity, religion, and orientation. Unlike the 2019 poll which saw ethnicity and religion as lesser factors given that the two major candidates then were from the same Fulani ethnicity and Muslim religion, the 2023 presidential poll is a contest among three major ethnic groups-Yoruba, Fulani, and Igbo. (pg. 20)
- Howbeit, analysts expect the decisions of voters to reflect a little ethnic affiliation, but more of monetary gains in some cases and frustration in other cases. (pg. 20)
- Taken in isolation, analysts say the plans of presidential candidates may fail to deliver the needed resolutions to Nigeria's macroeconomic challenges. However, the integration of these plans would better strengthen the policies and programs of the next administration. (pg. 24)
- Proshare Research survey, ...to identify the presidential candidate most likely to initiate socioeconomic reforms in the run-up to the 2023 presidential election, shows that the Labour Party candidate, Peter Obi, is likely to offer more radical and aggressive policy reforms across sectors with an average support of 64%. (pg. 24)
- While acknowledging that the poll reflects the social media presence and management of some candidates, it is also indicative of the perceptions of Nigerians, especially the youths on which presidential candidate is like to drive the needed socioeconomic reforms for shared prosperity. However, analysts say it should not be seen as a conclusive confirmation of a candidate's electability or verified capacity to resolve the issue raised. (pg. 24)

### Economic Outcomes in 2022 and the need to Rethink **Economic Policy.**

- Economic indexes that tracked Nigeria's macroeconomic changes in 2022 suggest a rather tight business environment and high living costs in 2022. (pg. 29)

**NIGERIA'S LAGGING ECONOMIC INDICATORS AT A GLANCE**

	2020	2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Unemployment rate	33.3%	-	-	-	-	-
Public debt (trillion)	N32.92	N39.56	N41.60	N42.85	N44.06	-
Inflation rate	13.21%	16.98%	15.74%	17.71%	20.31%	21.34%
Exchange rate (N/US\$)	380.26	403.58	415.34	415.68	422.86	440.81
Foreign trade (Balance of trade) trillion	(N0.18)	(N1.94)	N1.20	N1.97	N0.27	-
Stock market (NGX ASI)	+50.03%	+6.07%	+9.95%	+10.33%	(5.39%)	+4.54%
Oil Production, with condensate (mb/d)	1.83	1.62	1.56	1.39	1.21	1.35

Source: NBS, NGX, DMO, NUPRC, Proshare Research

Proshare.

- Nigerian investors with diversified portfolios enjoyed a moderate gain on investments in 2022, albeit moderated by naira depreciation and crypto slump for young investors. (pg. 37)

**ALTERNATIVE MARKET PERFORMANCE IN 2022**

	Equities (NGX ASI)	Fixed Income (10year Bond)	Forex Market (I&E FX Window)	Commodities (Gold)	Real Estate	Crypto (Bitcoin)
2022 Return	+19.12%	+9.6%	9.6%	+0.67%	+14%	-64.92%
Drivers	<ul style="list-style-type: none"> <li>Naira redesign.</li> <li>Strengthening of naira in the parallel market.</li> <li>Hawkish Monetary policy.</li> </ul>	<ul style="list-style-type: none"> <li>Hedge against inflation.</li> <li>Monetary policy rate hikes.</li> <li>Negative real yields.</li> </ul>	<ul style="list-style-type: none"> <li>Strong dollar.</li> <li>FX scarcity.</li> <li>Inflation.</li> </ul>	<ul style="list-style-type: none"> <li>Geopolitical tensions.</li> <li>Monetary policy rate hikes.</li> <li>Inflation.</li> </ul>	<ul style="list-style-type: none"> <li>High return on investment.</li> <li>Hedge against rising inflation.</li> <li>Depreciation of naira.</li> </ul>	<ul style="list-style-type: none"> <li>The collapse of FTX and Tera Luna.</li> <li>Celsius Network and BlockFi filing for bankruptcy.</li> <li>Investors' skepticism.</li> </ul>

Source: NGX, DMO, FMDQ, Proshare Research

Proshare.

- Arguably, analysts believe the improvement in the Nigerian economy has been unimpressive, including periods when development plans were implemented. (pg. 30)
- Analysts have argued that great socio-economic planning is delivered around three major anchors that allow it to be measurable, cost, and backed by legal enablers; serving as a guide for ordering the direction of the state, namely: policy, projects, and programmes. (pg. 31)
- Consistent lack of alignment among these anchors in Nigeria's national planning weakens the linkage of plans to annual budgets. (pg. 31)

**Nigeria on a Fiscal Cliffhanger.**

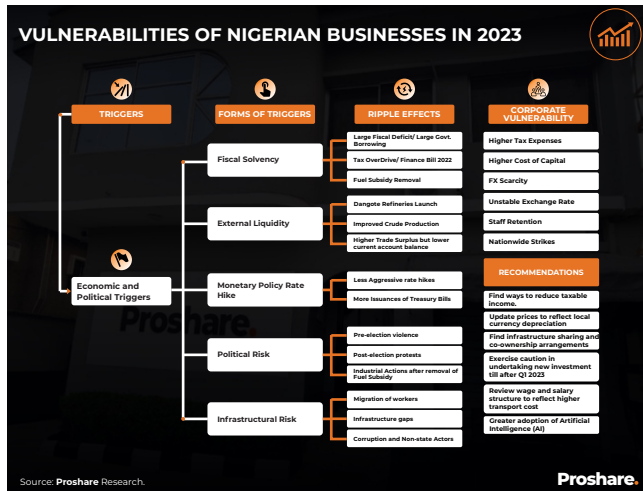
- With FG debt mounting and its revenue buckling, there is palpable angst and apprehension amongst average Nigerians who anticipate higher future taxes because of the repayment burdens. ....But ahead of the country lie two paths, one to a scenario of high liquidity which they call 'Eldorado', and the other to insolvency. (pg. 37)
- In the doom and gloom scenario, the FG would continue: to rely on revenue from oil exports and royalties from the National Oil company and borrow at a higher cost through the issuances of IOUs and Promissory notes, among others. (pg. 37)
- In the Eldorado scenario, Nigeria opens its foreign investment deal book and aggressively increases its deal count. FG would substantially increase its

- Revenues through the issuance of Licenses for greenfield investment in critical sectors and open equity investment opportunities in government-owned assets and companies through the listing of the same and thereby determining their market values and subsequently recording portfolio gains. (pg. 37)

**TWO TRACK PROJECTION OF NIGERIA'S DEBT SUSTAINABILITY****What 2023 has in Store for the Private Sector.**

- We believe that while energy and commodity prices may moderate slightly this year, the continued depreciation of the Naira would imply high domestic inflation. (pg. 40)
- Higher taxes and interest rates would affect the industrial sector and other interest rate-sensitive sectors. Higher cost of electricity would also imply slower growth and slight moderation in inflation. (pg. 40)
- Interest rates are expected to remain high in 2023 and this means that access to finance would be few and far in between. It also would not help that the Federal Government (FG) has elaborate domestic borrowing plans for this fiscal year... would crowd out private-sector borrowing. (pg. 41)
- The weeks and months that follow the election would be critical. In that period, a freely and fairly contested election would have produced a winner who may not be popular in sections of the country. Such post-election conflicts as were recorded in Brazil and other emerging economies could affect the Nigerian economy in H1 2023. (pg. 41)
- With the increasing demand for migrant workers in the United Kingdom, Canada, and other developed

economies, Nigerian businesses could be challenged in 2023 with the retention of talent. This is without prejudice to the rising cost of living in the said countries. Analysts say that the pay differential and living conditions would continue to motivate young Nigerians to seek opportunities globally. (pg. 41)



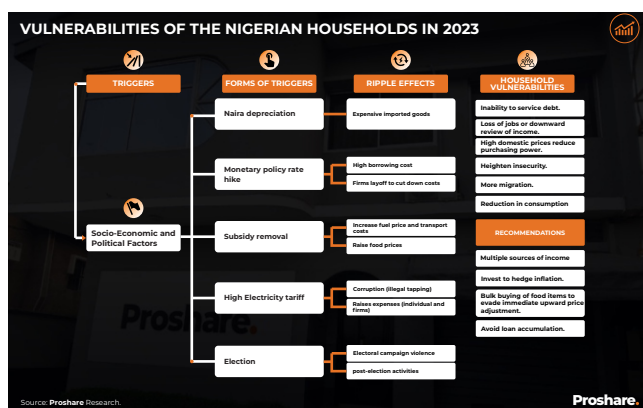
- The launch of the Dangote Refinery by H1 2023 is another uptick in risk drivers. Nevertheless, we forecast an end-2023 Parallel market rate of N765/US\$.
- The drivers are potential downside risks from weak global growth on the Nigerian Economy; currencies of Emerging Markets are likely to see further depreciation due to monetary tightening in advanced economies, especially in H1 2023; other risks include concerns around capital inflows, debt sustainability concerns, and additional pressure on FX and reserves.

## Conclusion.

- In 2023 Nigeria will see high but gradually moderating inflation rates. Monetary tightening will continue, and interest rates will be high as the Central Bank of Nigeria (CBN) heads off inflation.
- The implication is that fixed-income instruments will see lower prices as yields climb in the short end of the market but fall at the longer end. The foreign exchange market will remain high as export revenues are not likely to grow fast enough to improve the exchange rate. Traders may find it useful to buy currency futures to hedge against the adverse effect of the naira decline on imported goods and services.
- The performance of the Nigerian economy will be delicately balanced on creativity in raising public revenue beyond taxation and the progressive development of human capital and workplaces and spaces. It will also rest on the adoption and adaptation of technology to create tradable value. The thinking of tomorrow will start today, and policymakers have no time to experiment with indolence, after the 2023 elections the tyre rubbers must hit the tracks immediately.

## The Nigerian Household in A New Economy.

- The removal of subsidies would result in higher fuel prices, while the devaluation of the Naira would affect the price of imported food. Without any significant improvement in the situation of insecurity and on the back of last year's flash floods, domestic food prices are expected to rise. (pg. 47)
- Overall, Poverty and Inequality are likely to rise as unemployment is expected to remain high while growth is expected to occur in sectors that are not job-creating. (pg. 47)



## Transitioning Scenarios.

- 2023 GDP growth forecast: 2.9% (as against 3.0% in 2022). Driven by growth in the service sector, namely, information and communications, trade, and financial & insurance services.
- Post-election conflict.