2023 Macro Economic Outlook

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

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Proshare.

Contents

Executive **Summary.**

Outlooks are like weather forecasts; they can be instructive but not conclusive. A weatherman or woman could advise that citizens carry brollies when going out but the sun rises and blazes in all its glory, the wind blows gently and by 4.00 pm not a drop of water cools the face of parched pavements. Should the weatherwoman be given a pink slip and shown the door? No. Outlooks are guides based on the available information (which are not exhaustive) and assumptions that can shift for a wide variety of reasons.

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. Key considerations include but are not limited to the following:

1. Security fragility. Nigeria has a delicate security situation with bandits harassing citizens across state borders in the south, while religious brigands terrorize communities across the north. Kidnappings, political killings, and ethnoreligious conflicts are sore social touchpoints.

2. Supply-side Inflation. Nigeria's inflation rate has spiralled over the last half-decade with headline inflation rising from 12.15% in 2018 to 11.39% in 2019, 13.21% in 2020, 16.98% in 2021, and 18.76% in 2022. 2020 represented the heart of the COVID-19 pandemic so expectedly inflation rate was moderated as demand fell and supply chains buckled. Between 2021 and 2022, the supply chain difficulties of the COVID-19 period translated to higher costs of inputs and rising domestic wholesale and retail prices. Supply chains remain brittle, and manufacturers are coping with demand dropoffs as sales figures stumble. The trend will continue into 2023.

3. Politics and the uncertainty of candidate reliability. The old brigade of recurring political personalities has made the electoral choice difficult. One of three front-running candidates may win the elections. Two of these candidates have dodgy social and political antecedents with the layering of accusations of rampant corruption. The third candidate may not have the sociopolitical baggage of the other two but still represents a nondescript character, with suspicions of ties to secessionist organizations in the south.

   On economic policy, the three candidates are twelve of this and a dozen of the other. They all profess free market biases and a tendency towards increased private sector economic participation. A trust deficit, however, creates a credibility gap for the three candidates, with the youngest of the three less impaired and more believable. Even at that, he seems vulnerable to the banana peel of naivety.

4. Global economic shifts will have unintended consequences for emerging economies.

The World in Technicolour

The new face of reality is changing. With global financial markets becoming friskier, gone is the serene predictability of economies, off is the shining promotion of multilateralism, and buried is the concept of a fraternal new world order. In place of the old global economic playbook is a new set of rules that disdains globalization, restrains selfless collaboration, and drives a stake in the heart of global coordination. The new battle cry is every nation for itself, and the devil takes who ends last!

In 2022 the world was dark, dreary, and depressed. The breakout of the Russian-Ukrainian war sent global oil and gas prices spiralling while grain prices equally stretched to the heavens. Inflation soared across continents, with the UK ending the year in double-digits (10.5% in Dec), the USA recovered somewhat (from 10.1% mid-year to 8.0% year-end), and the Eurozone tangled with an inflation rate of 8.4%. Higher inflation rates have meant tighter monetary policy and slower global economies. In the new year, some economies will fall into a recession with higher corporate finance costs, weaker consumer demand, and sliding profit margins. Workers will get kicked through doorways as companies double and fold. Tech companies have already led the way. Amazon says it would layoff 18,000 staffers as it attempts to right-size its workforce.

Sub-Saharan Africa will mirror other prominent European and American economies. Continental inflation rates will be high, triggered by higher raw material costs, steeper replacement costs, escalating energy costs, higher grain import prices, and rising domestic labour wages and salaries.

Africa's Slow Renaissance

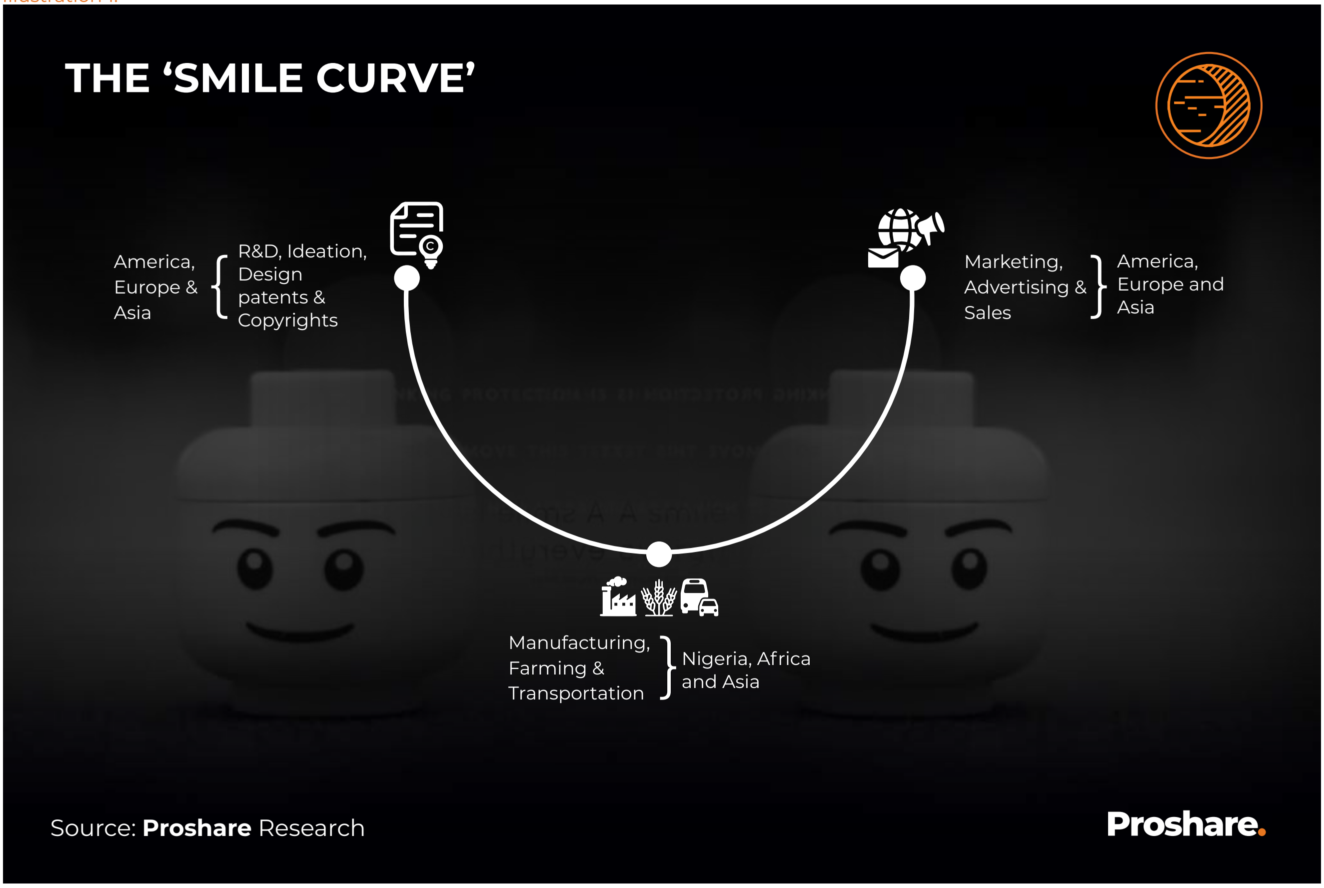
Africa's economic recovery will take some time coming. Most commodity-based economies in 2023 will have stunted growth. True enough, analysts expect that in Q1 and perhaps Q2 2023 commodities such as oil and cocoa may see prices rise, but this would be temporary. A pullback to growth would be a slowing down of Europe's economy as a recession or near recession (growth is expected to be 0.5% or lower for the year) sets in. The U.S. economy would equally break bad as growth slows to roughly 1%, as global energy and commodity demand fizzle down, thereby lowering commodity prices.

Lower commodity prices will hurt many African economies in 2023. Slower growth in large global economies will force African economies to stutter and put downward pressure on international commodity prices. However, there are countervailing tendencies. The opening up of the Chinese economy following the abandoning of the zero-COVID-19 policy would see the Chinese economy expand and demand for commodity inputs could rise in Q2 2023. A warmer-than-expected winter in Europe could see demand for manufacturing inputs rise higher than previously predicted and commodity prices could rise on the back of improved global demand.

The concentration on commodities could be Africa's undoing as strategic western economies concentrate on the upper end of what analysts call the smile curve (*see illustration 1*).

Illustration **1**

Illustration 1:



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.

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. For example, bitter leaf, a common food plant in Nigeria has been put into capsules and used as a wellness supplement. In the creative sector, Afrobeat has become a fast-growing global music genre but most of the economic value of this is domiciled outside Africa, with several artists setting up management firms in the United States of America (USA), particularly Delaware.

Operating at the upper corners of the industrial 'smile' curve enables emerging markets optimise and financialise talent. Furthermore, in a population census year with an estimated seventy per cent of Nigerians below the age of 45 years, the strategic architecture of statecraft and economic management become critical in shaping the future.

The report covers the wide interlacing network of political, economic and social concerns that will transform socioeconomic pains into measurable societal gains. The report notes that winners are those that understand the country's socioeconomic drift and solutions to generate value amid uncertainty.

Section One looks at the miscellany of developments in the globe that characterized the economy last year. The impact of megatrends such as the Russian invasion of Ukraine, the rafts of sanctions that followed, as well as the cycle of monetary policy tightening undertaken by central banks to dial back global inflation were assessed. The section also considers the impact of higher interest rates on the debt profile of emerging market economies.

Section Two is an excursion into the plans and programs of the frontline candidates in the forthcoming 2023 presidential elections. This section reports and analyses the outcome of a survey conducted by Proshare wherein a cross-section of the electorates assessed each of the candidates in the areas of the economy, security, education, health, and infrastructure. This section looks at the various possible outlooks for the economy based on the potential outcomes of the February polls.

Section Three breaks into an audacious attempt at re-imagining National development planning in Nigeria. It highlights the outcomes of past development plans while analyzing the trend of domestic economic growth, inflation, unemployment, and public debt. This section identifies the need for coherence between long-term plans, medium-term plans, and the annual budgets of the government.

Section Four looks at the fiscal position of the government. It particularly focuses on the debt service cost, the rising debt profile of the federal government, and the implications of the possible securitization of the Ways and Means Loans advanced by the Central Bank of Nigeria (CBN) to the Federal Government. The section presents an outlook on the fiscal position of the government while proffering alternative courses of action necessary to improve the fiscal space of the Federal Government.

Section Five considers the impact of rising inflation, higher interest rates, and a depleting pool of trained workers on Nigerian Businesses. This section takes a look at the likely impact of specific provisions of the 2022 Finance Bill on the projected earnings of Nigerian businesses in 2023. The section rounds off with a recommendation for organizations.

Section Six looks at the laborious journey of the Nigerian household in 2022. It analyses the impact of higher food prices, electricity costs, and Premium Motor Spirit (PMS) on the purchasing power of the average Nigerian household. The section also gives an outlook on what anticipated developments and government policies bode for the household in 2023.

Section Seven presents a summary of the outlook for 2023 for the domestic economy and the global economy. The final section concludes the report

Introduction: Slow Global Growth: **The Burden Of A Costly War.**

Early global growth forecasts for 2022 were set for significant downward reviews the moment the geo-political tension in Ukraine ensued. As the war wore on, crude oil and other commodity prices surged. This compounded inflation worries which had been birthed by pent-up demand in the post covid 19 eras. The large stimulus spending undertaken by governments during and after the lockdowns had already sent prices high. But the Russian invasion of Ukraine led to sanctions (by western allied countries) and countersanctions (by Russia) which disrupted the global supply of crude oil, natural gas, and grains like wheat and corn, stretching inflation forecasts. The most common economic buzzwords were the geopolitical tension in Ukraine, Inflation, monetary policy rate hikes, heatwave, and the resurgence in Covid-19 cases in China.

But these by no means represent the universe of global economic trend-setting developments that occurred last year. In Britain, Conservative party's Liz Truss set the record of the shortest-serving Prime Minister, after her own brand of Trickle-down economics later dubbed 'Trussonomics' sparked public outcry. The yawning and massive borrowing that was going to arise from Chancellor of the Exchequer Kwasi Kwarteng's sweeping Tax cuts sent yields rising and plummeted the British pound. It did not help that the Tax cuts were intended for individuals in higher income tax brackets. After Truss' resignation in November, frayed nerves calmed, markets recovered, and the pound firmed up.

In the periods that followed, the pre-existing cost of living crisis again became the biggest worry for households. UK inflation surged to double digits (10.1% October) on the back of rising energy prices. While better-than-expected weather conditions supported a slight drop in inflation, UK workers whose pay and working conditions have since last year worsened, have embarked on a series of industrial actions. The politics in the US were equally intriguing, in the run-up to the mid-term elections which were held in November, Inflation had begun to decline from a 9.1% peak in June but was still more than four times the 2% target of the Fed. According to polls, economic conditions ranked highest on the list of issues of importance for voters ahead of the midterms. The Federal Open Market Committee had battled inflation by raising the Federal Funds rate to 3.75%-4% but this tipped the US economy into a technical recession in H1 2022 after two contractions (-1.4%; -0.6%) in consecutive quarters. The US economy would however make a 3.2% GDP growth recovery in Q3 2022. We believe that the hockey stick pattern of the recovery in the US as well as its labour market which remained strong throughout the year suggest that the two consecutive dips were not necessarily indicative of a recession.

Also in November, when the Chinese communist party met, the world's second-largest economy was confronted by a triple whammy. The Property sector crisis from 2021, which wiped out billions of dollars' worth of loans and left swaths of buildings uncompleted had lingered despite the wave of stimulus targeted at reviving the housing sector. At the same time, the zero covid policy had begun to slow down factory activity. Analysts say the covid controls were the single most important factor responsible for the depressed growth outlook in China to 3% FY 2022, the slowest growth in a decade and 250bp lower than the 5.5% target set by the Xi Ji Ping Administration earlier this year. To make a perfect storm, extreme weather and a severe heatwave pressured the electricity grid for air conditioning (*see illustration 2*).

Illustration 2:

Emerging Democracies: Rising Debts and Pockets of Civil Unrest

As a whole, Emerging Markets and Developing Economies (EMDEs) recorded a 3.7% real GDP growth in 2022 and this is about 3 percentage points lower than the 6.6% growth recorded in 2021. However, India (6.8%), ASEAN-5 (5.3%), and Saudi Arabia (7.6%) seemed to have been resilient, as they managed significant growth despite higher levels of inflation and broad-based economic headwinds which buffeted other EMDEs. The Indian economy was relatively insulated from the deteriorating external environment largely because of its large domestic market and relatively lower sensitivity to foreign trade shocks. Nevertheless, an increase in foreign direct investment inflows and a strong cushion of foreign currency reserves provided ample support for the Indian economy.

With a real GDP growth of more than 7%, the Saudi Arabian economy defied the trend among emerging economies, turning out as one of the fastest-growing economies in the world in 2022. High oil prices and the **Saudi** sovereign wealth fund Public Investment Fund (PIF) which has $620 billion of assets under management seemed to have supported the kingdom's rapid rebound in 2022, but OPEC+-agreed production cuts could lead to a slowdown in 2023. Last year, the Kingdom's current account surplus was 13.7% of GDP.

In Brazil, days after the inauguration of the new administration led by Lula da Silva, thousands of supporters of former President, Jair Bolsonaro (who lost narrowly) stormed Brazil's congress, supreme court, and Presidential offices to protest what they claim was a stolen election. But while the riots seemed to be in protests of electoral fraud, observers say at the heart of the conflict is disquiet over a new economic plan. President Lula da Silva had recently unveiled his ambitious environmental plans (which may threaten the interest of certain groups who rely on exploiting the Amazon) and this, Analysts say is at the roots of the riots. Coupled with riots and a polarized parliament, President Lula da Silva-led government is faced with a challenged economy. The government has had to cut its 2023 GDP growth forecast to 2.1%, from the 2.5% anticipated in September due to a deterioration in global economic conditions.

William Ruto, former Kenyan vice President, was elected as Kenya's next president on August 16, 2022 with 50.49% of the vote cast to defeat seasoned opposition figure and former Prime Minister Raila Odinga, who was running in his fifth election. Due to increased challenges, including weaker global growth and local interest rate rises, the **Kenyan economy** will record tepid growth in 2023. Forecasts suggest that growth will only pick up between 2024 to 2027 if Ruto's structural reforms would receive parliamentary assent. While Democracies are meant to help societies answer the basic economic questions through the ballot, the possibility of polarized voting or what Fitch Solutions refers to as a 'Fragmented Parliament' could stymie policymaking (*see illustration 3*).

Illustration 3:

KEY ELECTIONS WHICH COULD PRODUCE FRAGMENTED PARLIAMENTS IN 2023

COUNTRY	DATE	EXPECTED OUTCOME
Nigeria	25 February 2023	*Incumbent Victory*
Thailand	7 May 2023	*Too Uncertain*
Turkiye	18 June 2023	*Weakened Incumbent Victory*
Greece	July 2023	*Weakened Incumbent Victory*
Pakistan	19, October 2023	*Too Uncertain*
Scotland, UK	19, October 2023	*UK government may block referendum*
Argentina	29, October 2023	*Too Uncertain*
Poland	11 November 2023	*Weakened Incumbent Victory*
Spain	11 December 2023	*Opposition centre-right victory*

- *We expect divisions over policy to grow in 2023 as inflation and slowing growth exacerbate fiscal and monetary policy dilemmas.*
- *We are already seeing such polarizing challenges in Brazil and Malaysia.*
- *Prospects for economic reform are muted as incumbent or incoming governments are forced to table immediate issues.*
- *We also expect that several economies will experience tensions between the executive branch and legislature over policy direction.*
- *Increasing risk of protests and the potential for fringe parties to gain traction.*

Source: Fitch Solutions

Proshare.

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. In its own case, **Sri Lanka** stopped making payments on its foreign debt in May. The Indian Ocean Island is still waiting for a $2.9 billion IMF bailout amid political unrest and hardship. The economy is in a crisis because there are not enough resources to pay for necessities like fuel. The annual inflation rate based on the National CPI rose to a record high of 73.7% in September. Even though inflation had by December moderated to 65%, the rate of poverty had doubled, and economic productivity plummeted severely in a single year.

In Ghana, a major debt overhang has spiraled into a severe fiscal and external sector crisis. Partly occasioned by a rising debt profile, higher interest rates in the west, and capitulating revenue, Ghana's debt crisis led to the country's downgrade, by several credit rating agencies, to below investment grade. The West African Nation serviced its debt with over half of the government's revenue, while the public debt profile stood at over 100% of GDP. With the Ghanaian Cedis turning out the worst-performing currency globally, Inflation defied the 1250bp cumulative monetary policy rate hikes by the Bank of Ghana in 2022. Headline Inflation jumped to 50.3% in November and later to 54.1% in December while GDP growth slowed to 2.9% in Q3 2022. President Nana Akufo Ado, who would be leaving office next year, has the unenviable task of clearing the Augean's stable. In doing so, he has secured another IMF loan and is currently negotiating a debt exchange arrangement with bondholders. According to the Ministry of Finance, "the Exchange is an arrangement through which holders of Eligible Bonds will submit their holdings of Eligible Bonds governed by Ghanaian law and denominated in Ghanaian Cedis (GHS) for new benchmark Government of Ghana bonds with the same aggregate principal amount, and which have in the aggregate a lower average coupon and extended average maturity than the Eligible Bonds".

In the last 16 months, the **Turkish Central Bank** has defied traditional monetary policy postulations and embarked on an easing cycle in the face of raging inflation. inflation hit a 25-year high of 85.5% in October. Analysts believe that the large current account deficits which Turkey has run for most of the last decade suggest that output may be beyond the economy's potential and naturally inflationary. It also did not help matters that import costs surged following the Russian Invasion of Ukraine. While experts expected that the rate should have been hiked.

Erdogan would be running for another term in office in 2023 when Turkey is due to hold a national election, observers say just as he ordered that the legal minimum wage be doubled in Turkey, Erdogan would be counting, not the merit of his administration's economic outcomes, but on social intervention programs aimed at insulating certain demographics of the Turkish population, like pensioners, those on social security payments and public sector workers to secure a re-election.

The 2022 Global Economy in Retrospect

- **Slower Global Growth**
  GDP growth declined to 3.2% from 6% in 2021, with Advanced economies slowing to 2.4% in 2022 from 5.2% in 2021. Emerging Markets and Developing Economies on the other hand recorded a 3.7% growth in 2022 this represents a 2.9 percentage point decline from the 6.6% growth recorded in 2021. Growth in Sub-Saharan Africa slowed to 3.6% while ASEAN-5 and India supported global growth with (5.3%) and (6.8%) real GDP growth respectively.

- **Higher Average Inflation**
  Global inflation rose to 8.8% in 2022 with the most adversely affected being the EMDEs (9.9%)

while Advanced economies also saw a leap in inflation to 7.2%. Overall, higher levels of global Inflation, which were induced by energy and wage growth, pinched household savings and demand in 2022. The ASEAN-5 again outperformed other analytical groups with a relatively low 4.1% average inflation rate.

- **Monetary Policy Normalization**
The US set the pace of rate hikes for other western economies in 2022. Rising lending rates slowed down factory activity as well as private sector productivity in interest rate-sensitive sectors. Likewise, there are worries that the struggling real estate market in several nations might become more widespread and affect banks and the macroeconomy. Also, the wave of monetary tightening in some countries and accommodative monetary policy in others, meant that the USD dollar and several other currencies firmed up while the Yen, Yuan, and a few others declined in value, as investors. Successive rate hikes have meant that Interest rates rose to 4.25% - 4.5% in the US. In the Eurozone, rates rose for the first time from the negative range in 14 years to 2.5%. The same pattern was observed in Canada. Conversely, the Peoples Bank of China repeatedly reduced the one and five-year loan prime rates to support the ailing economy (*see table below*).

Table 1:

INTEREST AND INFLATION RATES ACROSS MAJOR ECONOMIES

	Interest Rate (%)	Inflation Rate (%)	GDP ($'Trn)	Real GDP Y-O-Y (%)	Unemployment Rate (%)
United States	4.5	6.45	23.32	1.9	3.5
China	3.65	1.8	17.73	3.9	5.7
Eurozone	2.5	9.2	14.56	2.1	6.5
Japan	-0.1	3.8	4.94	1.5	2.5
Germany	2.5	8.6	4.26	1.3	3
United Kingdom	3.5	10.7	3.13	1.9	3.7
France	2.5	7.1	2.96	1	7
Italy	2.5	12.6	2.10	2.6	7.8
Canada	4.25	6.8	1.99	3.93	5
Spain	2.5	6.7	1.43	3.8	12.4

**As of January 2023*

Source: Ycharts, Proshare Research

Proshare.

- **Declining Global PMIs**
Meanwhile, global PMI figures declined steadily as financial conditions tightened. As central banks responded increasingly vigorously to the above-target inflation, labour market conditions tightened, and unemployment rates fell to their lowest in many years as service sector inflation kept prices up. Private sector productivity slowed on the back of higher costs and

declining consumer confidence.

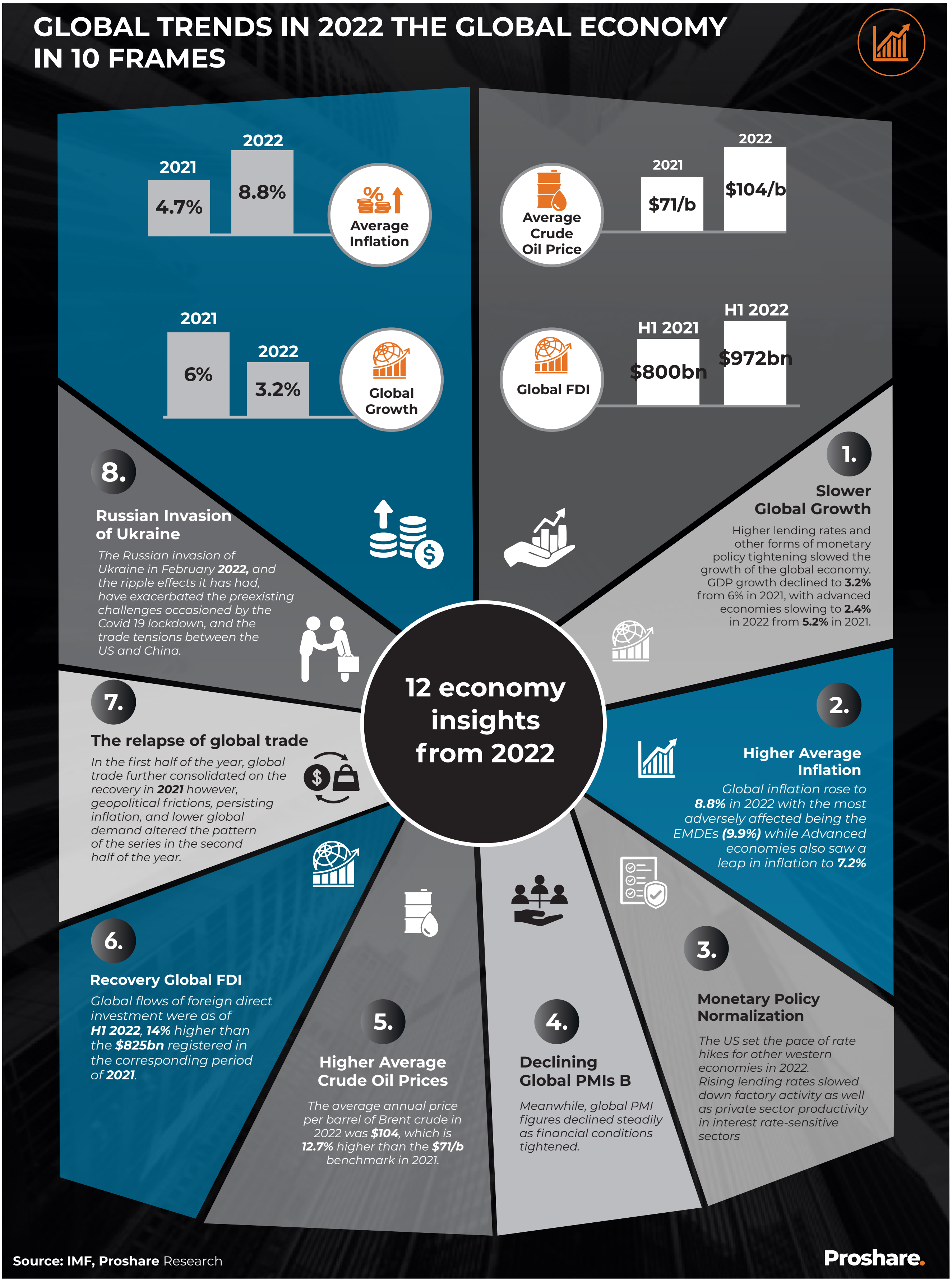
- **Higher Average Crude Oil Prices**
  The average annual price per barrel of Brent crude in 2022 was $81, which is 12.7% higher than the $7/b benchmark in 2021. The WTI crude averaged $75/b in 2022, 10% higher than the $67.99/b benchmark in 2021. Meanwhile, oil prices swung widely in 2022 on the back of tight supplies amid the war in Ukraine as well as weakening demand from major importers namely China as well as a broad-based fear of a global recession.

- **Recovery Global FDI**
  Global flows of foreign direct investment were as of H1 2022, 14% higher than the $825bn registered in the corresponding period of 2021. UNCTAD data suggests that FDI flows recovered to pre-pandemic levels in 2021, reaching $1.6 trillion. In Q2 2022, however, flows to developed economies were estimated at $137bn, 22% lower than the quarterly average of 2021. FDI flows to developing countries proved more resilient, increasing by 6% to $220bn.

- **Russian Invasion of Ukraine**
  The Russian invasion of Ukraine in February 2022, and the ripple effects it has had, from an increasing number of international sanctions to the disruption of global trade and supply chains, have exacerbated the preexisting challenges occasioned by the Covid 19 lockdown, and the trade tensions between the US and China.

- **The Rise and Fall of Global Trade**
  In the first half of the year, global trade further consolidated on the recovery in 2021 as trade in goods and services for 2022 is estimated to have reached $25trn and $7trn respectively. By Q3 2022, however, geopolitical frictions, persisting inflation, and lower global demand altered the pattern of the series. Economists expect that global trade in 2023 would be equally affected by the conflict in Europe as well as the rising fear of global recession (*see illustration 4*).

Illustration 4:

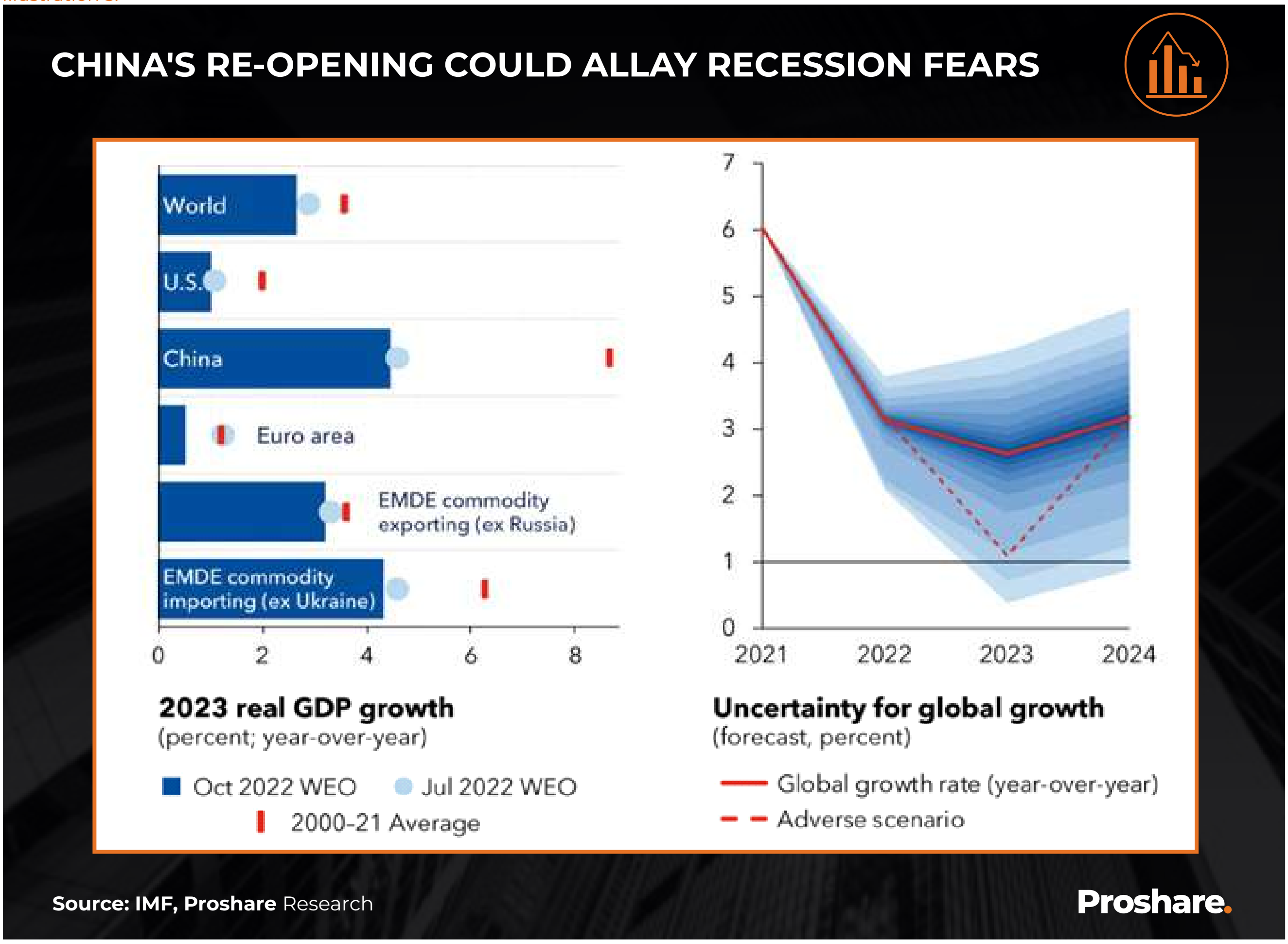


The 2023 Global Economy in Focus

"Global growth is projected to decelerate sharply this year, to its third weakest pace in nearly three decades, overshadowed only by the 2009 and 2020 global recessions". - World Bank Group

- **Global Recession: Deep or Shallow?**
  Economists have cut the growth forecast for 2023 to 2.7% with experts' consensus projecting a recession that could start as early as Q1 2023. Expert opinions are however split on whether the recession in 2023 would be long or short; deep or shallow. Some are of the view that the high levels of global inflation will require a major slowdown and a much larger amount of unemployment to tamp down inflation. Others say that a weakened economy would not necessarily imply a lengthy, or deep, period of contraction. We are persuaded by the strength of the housing sector, and global financial system stability that the recession would be a mild one. Economist consensus suggests that the US may register a 1% growth this year, while the Euro Zone may manage a 0.5% growth. China's reopening raises hopes that growth could rebound to 4.5% in 2023 from 3% last year (*see illustration 5*).

Illustration 5:



- **Inflation to Moderate**
  Global Inflation is set to fall quickly from 8.8% in 2022 to 6.5% in 2023. Already Inflation has begun to moderate in economies like the United States (US) where inflation is believed to have peaked, and the long-term inflation expectation is well anchored. US December inflation came in as

expected at 6.5% down from a record 9.1% in June. Inflation has also moderated in the Eurozone as Eurozone consumer expectation for inflation declined in November on the back of declining energy prices which are expected to continue to decline to an $88/b average in 2023. The inflation worries in EMDEs may however be different given that Currency driven inflationary pressures which would abide are more prevalent in such economies.

- **Global hiking cycle to reach terminal rates.**
  As policymakers continue their fight against inflation, more increases from central banks are expected in Q1 2023. However, with the market currently pricing a terminal rate at 5% in the US, about 4.5% in the UK, and close to 3% in the eurozone, the potential for more positive surprises is considerably reduced moreso inflation has started to slow down.

- **Price Caps, Friendshoring and De-globalization**
  Democratic countries and their most important allies would shift their dependence from dictatorships to democracies. The impact of the war in Ukraine has already caused many countries to reduce their reliance on Russia. The G7, EU, and Australia last December placed a ceiling on the price of Russian oil. In response, Russia would respond by re-routing most of its supplies to India, China, and other Asian countries at discounted prices (*see illustration 6*).

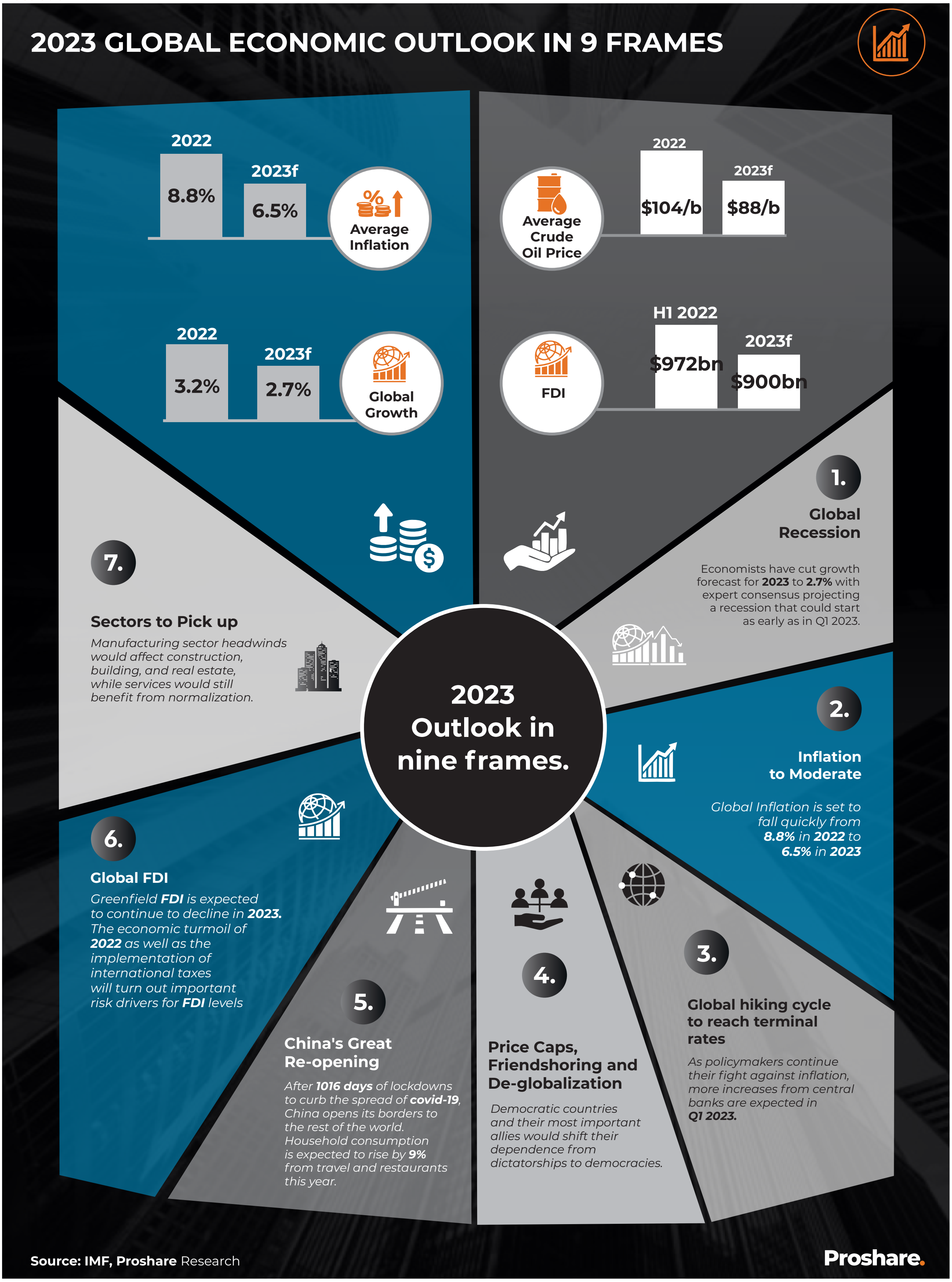
Illustration 6:

- **China's Great Re-opening**
  After 1016 days of lockdowns to curb the spread of covid-19, China opens its borders to the rest of the world. Household consumption is expected to rise by 9% from travel and restaurants this year. Households are said to have saved one-third of their income in 2022. The Re-opening will also support China's troubled property sector, depending on the broader policy planks of the government. But in the most optimistic scenario, the property sector could grow by 3% in 2023 and add between 0.9% and 1.5% to the overall GDP of China. Global commodity and energy prices would not be upwardly nudged by China's re-opening, because it would only be picking up the volumes cut by other countries. In terms of investment, China's economy is expected to record a swift return of inflows upon its reopening.

- **Global FDI**
  Greenfield FDI is expected to continue to decline in 2023. The economic turmoil of 2022 as well as the implementation of international taxes will turn out important risk drivers for FDI levels, especially in H1 2023. At the same time, the ongoing war in Ukraine will continue to present global economic pressures that would inhibit FDI flows. In 2023, the rebalancing of trade and investment partners will be more apparent; significant issues being the IT sector, energy redistribution, reorganization of Russian operations, and friendshoring or diplomatic re-alignment. Meanwhile, with high growth prospects such as in the Emerging Market and Developing Asia and the ASEAN-5 would be major investment destinations in 2023.

- **Sectors to Pick up**
  Manufacturing sector headwinds would affect construction, building, and real estate, while services would still benefit from normalization. Housing market activity is likely to stay low with mortgage rates high. Labor markets would start to loosen amid slower growth environments (*see illustration 7*)

Illustration 7:



Nigeria Beyond The 2023 General **Elections.**

Given the complexities and present realities of the country, it will not be a tea party for the next President of the Federation. But what really do Nigerians expect from their next President? - THISDAY

Nigeria's 2023 Election: A Peek at the Frontline Presidential Candidates

All things being equal, Nigerians will be at the poll in February 2023 to decide the next set of leaders who will control both the social and economic trends of the country. 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. This includes candidates of the ruling All Progressive Congress (APC), the People's Democratic Party (PDP), the Labour Party (LP), and the New Nigeria Peoples Party (NNPP). 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. 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.

Political uncertainty naturally discourages investors. However, the dynamics and orientations of the current presidential candidates on macroeconomic issues have garnered the interest of the broad spectrum of the business ecosystem in Nigeria. Although with a few areas of convergence, such as the removal of subsidies and increasing productivity, the presidential candidates have shown different tendencies on major issues. Analysts expect these tilting, detailed in their respective manifestos, to strongly influence the choice of the candidate among business and professional services communities (*see illustration 8 & 9*).

Illustration 8:

2023 PRESIDENTIAL CANDIDATES AND ECONOMIC PLANS FOR NIGERIA

APC — Bola TINUBU

Renewed Hope 2023:
Action plan for a better Nigeria

- **Economic growth:** Focus on industrial activity with youths as leading catalyst to spearhead. Project a steady annual growth rate of 10%.
- **Oil & Gas:** Increase crude oil production to 2.6mmb/d by 2027 and 4mb/d by 2030; remove fuel subsidy; and accelerate full implementation of the PIA.
- **Human Capital:** Reform educational sector; provide health coverage for pregnant women and children under-five; and cut youth unemployment rate in half within four years and reduce unemployment to 11.9m.
- **Infrastructure:** Build on President Buhari's Presidential Power initiative; activate and harmonize the National Industrial Policy with the National Infrastructure Policy; and improve rail, road, air, and maritime means of transportation.
- **Security:** expand and improve upon the use of technology; enhance recruitment of personnel, and bolster existing agencies and system to combat terrorism, banditry, etc.

23.97%
Perceived likelihood of Socio-economic reforms

Peter OBI

It's possible: **Our pact with Nigerians.**

- **GDP growth:** Pursue economic diversification driven by an agrarian revolution and export-oriented industrialization.
- **Oil & Gas:** Eliminate petrol subsidies; ensure oil production does not damage environment; and build Embedded Powerplants with gas feedstocks.
- **Human Capital:** Invest in top-tier scholarship and research, quality healthcare, and entrepreneurship education; and use a structured approach to develop the digital skills of youths.
- **Infrastructure:** Build top grade infrastructure for efficient power supply, rail, road, maritime, air transportation, and pipeline network; restructure the Nigeria Electricity Supply Industry (NESI) to deliver adequate, accessible, reliable and affordable power for Nigerians; create Highway Trust Fund Account; and develop 100,000 mini-grids across the country by end 2024.
- **Security:** Deploy state-of-the-art military technology; Recreate community relations with security agencies; and engage, support, and partner, with national and sub-national government.

63.75%
Perceived likelihood of Socio-economic reforms

Source: Proshare Poll

Proshare.

Illustration 9:

2023 PRESIDENTIAL CANDIDATES AND ECONOMIC PLANS FOR NIGERIA

Atiku ABUBAKAR

My covenant with Nigerians

- **Economic growth:** affirm private sector lead development, allow market greater leverage in determining prices, and build a competitive and resilient economy. Project 15th largest economy globally in GDP per capital by 2030.
- **Oil & Gas:** Privatize all government-owned refineries and issues new licenses for greenfield investment in crude oil refining. Project refining capacity of 2mb/d
- **Human Capital:** Promise research in science and technology; foster robust healthcare system; and increase investment in social infrastructure.
- **Infrastructure:** Break government monopoly in all infrastructure, including refineries, rail transportation and power transmission. Project stock of infrastructure at 65% of GDP
- **Security:** reactivate birth registration to reduce crime, decentralise security institutions, promote regional security, and improve civil-military relations.

9.22%

Perceived likelihood of Socio-economic reforms

Rabiu KWANKWASO

My Pledges to you:
The RMK 2023 Blueprint

- **GDP growth:** Implement Nigerian Economic Revamping Strategy for single-digit inflation rate and unemployment rate, and a steady growth rate; make Nigeria the next industrial hub in Africa.
- **Oil & Gas:** Implement PIA; increase oil production to OPEC threshold of 2.2 million barrels per day; review subsidy regimes; and create credible gas value chain.
- **Human Capital:** Prioritising access, quality, and productivity as key cornerstones of educational reform.; provide high-quality healthcare services and health infrastructure; and create jobs through the Economic Revamping strategy.
- **Infrastructure:** Increase electricity generation, transmission, and distribution to 15,000MW - 20,000MW by 2027; pursue affordable housing schemes; and provide adequate and superior road, rail, and air networks.
- **Security:** Adopt special approach, including increase size and capacity of security institutions, secure socio-economic wellbeing of citizens, and promote enlistment through the NYSC.

3.08%

Perceived likelihood of Socio-economic reforms

Source: Proshare Poll

Proshare.

Nigeria's Macroeconomic Challenges VS Plans of Presidential Candidate

Nigeria's next president will have four major macroeconomic issues to resolve. The country currently faces a twin problem of high unemployment and high inflation, depressing living standards while raising the cost of living. Nigeria also faces a huge infrastructure deficit and a theft-induced plunge in the oil sector. Security crisis across all regions of the economy is another challenge for the incoming leaders of Nigeria. Analysts review these challenges and the capacity of major presidential candidates to address these challenges as detailed in their manifestos.

In terms of economic growth, Nigeria's macroeconomic indicators have consistently painted a picture of a grim and worrisome economy with unimpressive indexes, including slow growth, high unemployment, high inflation, a negative balance of trade, and dwindling oil production, among others. Most economic forecasts see a further strain in 2023. Major presidential candidates are offering different approaches to spur the growth of the Nigerian economy. Bola Tinubu intends to boost growth through industrial activities while Atiku Abubakar intends to leverage private sector players to spur growth. Both plans are good together but not in isolation. Whereas the private sector can aid the industrialization process, it requires policy support from the government to thrive and be sustainable. As much as Peter Obi intends to pursue a diversified economy with agrarian revolution and industrialization, there would be a need to spur domestic demand for domestic goods to be successful. Analysts say the target of the Rabiu Kwankwaso is rather too optimistic for Nigeria at this time. Achieving single-digit inflation and unemployment with steady GDP growth seems rather impossible given the growth-inflation trade-off.

Nigeria's oil and gas industry suffers from two major challenges: crude oil theft in the upstream segment and subsidy regime in the downstream oil segment. Although most presidential candidates have expressed readiness to remove the subsidy and curb crude oil theft upon winning the election, they differ in approach and endgame. Almost all the presidential candidates plan to tackle large-scale oil theft with the deployment of modern technologies and engagement. In line with the proposition of a few candidates, Analysts say the full implementation of the PIA 2021 could offer some respites. On the fuel subsidy, Bola Tinubu of the APC seems to have the most articulated plan to remove and utilize the subsidy funds for social goods. Analysts have raised concerns about the private sector-led model of Atiku Abubakar, arguing that his capitalist model may be taken to the extreme. On the flip side, analysts expressed little worries for Peter Obi of the LP's intent to incentive the mid-stream segment of the petroleum sector by facilitating gas processing plants and privately-owned small and medium-scale boutique refineries. With no specific disclosure on the subsidy regime, Rabiu Kwankwaso intends to review the subsidy regime. Analysts believe he might intend to maintain the subsidy regime.

Despite the commitment of the Buhari Administration to building infrastructure, Nigeria has a huge infrastructure gap, valued at US$170bn annually. For the presidential candidate of the Labour Party, Nigeria needs an expansive and world-class infrastructure for efficient power supply, rail, road, and air transportation, and pipeline network, through integrated public-private partnerships, and entrepreneurial public sector governance. He plans to leverage corporate tax credit, philanthropy, and community-based infrastructure bonds for infrastructure funding. APC candidate also intends to attract private sector investment and international partnerships in funding infrastructure. The PDP candidate plans to establish an Infrastructure Debt Fund to primarily mobilize domestic and foreign resources for financing large-scale infrastructure. Analysts say the infrastructure funding models of some candidates are rather too ambiguous and lack specifics, albeit all candidates agreed some forms of the Public-Private Partnerships (PPP) model are required for funding large-scale infrastructure.

Kidnapping, banditry, herder-farmer crisis, terrorism, militancy, armed robbery, and extrajudicial killings are but a few of the issues of insecurity in Nigeria. This is further compounded by the lack of socioeconomic well-being of Nigerians. The presidential candidate of the LP seems to have an extended list of measures to secure Nigeria, including technologies, community engagement, state police, institutional reforms, and legal framework. In the same manner, the APC candidate plans to replicate his security efforts in Lagos state, including bolstering security forces, redefining military doctrine and practice, integrating the national identity database, repositioning the police force, and prioritizing international collaboration. Although the PDP presidential candidate intends to adopt the UAE security model, which is based on adopting technologies to monitor activities, critics say his policy on an open economy would further worsen insecurity. In a rather more holistic approach, the NNPP candidate plans to scale the size and capacity of security institutions, secure the socio-economic well-being of Nigerians, collaborate with neighbouring countries for sustainable security, and make enlistment easier. Analysts have consistently argued that a good approach to deal decisively with insecurity in Nigeria is to consider the multidimensions of the insecurity, including economic uncertainty and food insecurity of Nigerians, among others.

Taken in isolation, the plans of presidential candidates may fail to deliver the needed resolutions to Nigeria's macroeconomic challenges. Analysts believe the integration of these plans would better strengthen the policies and programs of the next administration.

People's Perception of Presidential Candidates' Plans

In a survey conducted by Proshare Research, Nigerians were asked to identify the presidential candidate most likely to initiate socioeconomic reforms in the run-up to the 2023 presidential election. The survey, conducted over three (3) weeks, recorded hundreds of respondents with interesting pivots to the data.

The survey shows that the Labour Party candidate, Peter Obi, is likely to offer more radical and aggressive policy reforms across sectors with average support of 64%. He is followed by the presidential candidate of the ruling All Progressive Congress, Bola Tinubu who was able to gather an average support of about 24%. The poll seems to suggest that the presidential candidates of both the People's Democratic Party, Atiku Abubakar, and the candidate of New Nigeria Peoples Party, Rabiu Kwankwaso are unlikely to drop notable reforms.

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, it should **not** be seen as a conclusive confirmation of a candidate's electability or verified capacity to resolve the issue raised (*see table 2*).

Table **2**

Table 2:

PERCEPTIONS OF NIGERIANS ABOUT PRESIDENTIAL CANDIDATES ON SOCIOECONOMIC ISSUES

	Bola Tinubu	Atiku Abubakar	Peter Obi	Rabiu Kwankwaso
	Respondents (%)	Respondents (%)	Respondents (%)	Respondents (%)
Full implementation of the Petroleum Industry Act (PIA)	22.9	11.2	62.9	11.2
Improve Nigeria's Education Sector.	15.9	7.8	69	7.8
Promote ease of doing business in Nigeria.	26.3	8.7	62.1	8.7
Sound and domesticated economic philosophy.	22.2	11.9	62.8	11.9
Productivity of the manufacturing sector.	24.4	10	63	10
Effective poverty eradication programmes in Nigeria.	27.4	6.3	63.7	6.3
Support MSMEs Output and survival.	22.2	7.1	67.5	7.1
Improve Nigeria's GDP per capita.	23	10.1	63	10.1
Attract Foreign Direct Investment into Nigeria.	24.9	10	60.6	10
Reduce Inflation.	20.4	8.7	66.8	8.7
Stimulate the Economy and Create Jobs.	27.5	8.5	62.4	8.5
List public enterprises on the Nigerian Capital Market.	22.1	17	59.2	17
Promote elite consensus for the Prosperity of Nigeria.	31.3	9.7	57.3	9.7
Support Nigeria's growing advantage in the entertainment and creative industries.	28.2	5.8	63.5	5.8
Support the unification of the country's multiple exchange rate systems.	22	8.6	66.5	8.6
Value credible and consistent national statistics (from NBS).	23.2	7	66.6	7
Promote the security of life and businesses.	22.1	7.1	66.2	7.1
Consolidate fiscal and monetary policies.	24.3	9	64.6	9
Honour Fiscal Responsibility Act.	23.5	8.1	66.7	8.1
Drive structural reforms.	25.6	11.8	60.6	11.8

Note: The poll is not an endorsement of any of the candidates by Proshare

Source: Proshare Poll

Proshare.

Economic Outcomes In 2022 And The Need To Rethink **Economic Policy.**

Nigeria's Macroeconomic Outcomes in 2022

- A preliminary estimate of Nigeria's Gross Domestic Product (GDP) in 2022 indicates that the country grew by 2.25% Y-o-Y in Q3, 3.54% Y-o-Y in Q2, and 3.11% Y-o-Y in Q1. This has led to an annualized rate of 2.97% in 9M 2022, supported by about 7% growth from the service sector and over 1% growth in the agricultural sector but capped by the negative growth in the industrial sector. The annualized growth as of Q3 2022 dropped from an annualized growth of 3.18% in Q3 2021, attributable to the base effects of the recession and the challenging economic conditions that have impeded productive activities. Analysts say the elevated inflation and higher cost of funds would depress private sector growth and household spending in Q4 2022, bringing the expected real GDP growth for the year to about 3%.

- With a dearth of Nigeria's unemployment data for 2022, analysts say recent data from the National Pension Commission (Pencom) on RSA withdrawal suggest a deteriorated economy and a worsened labour market in 2022. Recent data from the National Pension Commission, PenCom, shows that the number of withdrawals made by laid-off workers in Q3 2022 surged to N8.28bn (from 11,913 workers), up from N5.66bn in Q3 2021 (from 9,517 workers). Cumulatively, a total of 30,680 RSA holders under 50 years were disengaged from work between January and September 2022. The spiraling inflationary trend has forced many employers of labour to downsize. Elsewhere, the recently released National Multidimensional Poverty Report 2022 by the National Bureau of Statistics (NBS) shows that 63% (or 133m) of Nigerians are multi-dimensionally poor, considering metrics such as food insecurity, Time to Healthcare, Nutrition, unemployment, etc. Analysts say the poverty reduction strategies in Nigeria have failed to achieve the desired objective in 2022 due to a lack of commitment by relevant government agencies, corruption, and bureaucratic bottlenecks.

- Nigeria's annual crude oil production (including condensates) dropped from an average of 1.62mb/d in 2021 to 1.38mb/d in 2022, following a significant dip in Q3 2022, reflecting the slog in implementing the PIA, oil theft, pipeline vandalism, and other industry challenges. This has widened the gap between the country's actual production and the 2022 budget assumption of 1.88mb/d. In the third quarter of 2022, the country recorded a daily average of 1.20mb/d, lower than the daily average of 1.57mb/d in Q3 2021 and lower than the Q2 2022 production volume of 1.43mb/d. Production dropped to 972,394b/d in August and further to 937,766b/d in September, a record low for the country. Analysts say the low production volume reflects the many shut-ins at major terminals, including Bonny, Brass, Escravos, and Forcados terminals, on the back of crude oil theft, pipeline vandalism, aging infrastructure, and maintenance repairs. Meanwhile, the country could not benefit from the rally in oil prices in 2022 due to the subsidy regime and the low production volume. Major oil price benchmarks hovered between US$70 and US$130 per barrel in 2022 on structural barriers to demand and supply disruptions from the Russia-Ukraine war. Brent crude futures rose by 5.98% YTD in 2022, following a 50% jump in 2021 while US WTI rose by 4.5% YTD, after closing higher by 55% in 2021.

- Nigeria's industrial sector recorded a GDP contraction of -8% in Q3 2022, -2.30% in Q2 2022, and -6.81% in Q1 2022, a further shrinkage from -1.63% in Q Q3 2021, -1.23% in Q2 2021, and +0.94% in Q1 2021. The contribution of the sector to GDP also maintained its slug since 2016, contributing an average of 19.75% to GDP in 2022, down from 20.56% in 2021. Analysts say Nigeria's industrial sector has continued to be disrupted by global supply chain bottlenecks and local macroeconomic challenges. Whereas the existing industries are bedeviled with high operating costs, weak infrastructure, and multiple tax systems, major industrial projects, including oil refineries, rice mills, and industrial parks, have continued to push their timelines ahead. Although the viability of the sector has a profound implication on socioeconomic indexes, including inflation, food security, job creation, and the productivity of the economy, it has not fared well in its backward linkages and multiplier effects on agricultural value chains. Analysts say the construction of free trade zones would provide opportunities for industrial growth with the connectivity of the seaports to the hinterlands. Meanwhile, government efforts to promote greater values in the country's agricultural sector have also shown little progress. Although the Agri-sector contributed an estimated 25% to GDP in the first nine months of 2022, it recorded a paltry estimated growth of 1.90% within the period. In the real term, the agricultural sector grew by 1.34% in Q3 2022, an increase of 0.12% from the corresponding period of 2021, and an increase of 0.14% from Q2 where the country recorded a growth rate of 1.20%. Analysts attributed the low performance of the agricultural sector to insecurity, low investment, climate change, fertilizer shortages, high energy prices, flooding, and lack of export markets. Howbeit, commodity exchange programmes, mechanization, and increased backward linkages programme remain the low-hanging fruits.

- Annual inflation for 2022 averaged 18.76%, recording the lone decline for the year in December (down to 21.34% from 21.47% in November) following 11 months of rising consumer price indexes, a 17year high. The rising inflation was buoyed by the exchange rate pass-through effect of the Russia-Ukraine war, high energy prices, nationwide flood, and reoccurring fuel scarcity. There is a somewhat consensus among analysts and policymakers in Nigeria that persistent inflationary pressures are largely functions of structural and imported inflation, given the large dependency of Nigeria on imported products. In an effort to control the spiraling inflation and ease the pressure on the naira, the monetary policy authority of the CBN raised the benchmark lending rate (monetary policy rate) by a cumulative 500 basis points to 16.5% from 11.5% in 2022. Although the tight monetary conditions in 2022 weigh in on the stock market momentum in the first half of the year as investors were drawn to the rising yields in the fixed-income market, analysts say the real effect would be felt on economic growth and equity market in 2023. Inflation is expected to taper later in 2023 as the lag effect of the rate hikes takes effect.

- Nigeria's total trade in the first nine months of 2022 stood at N37.44trn, 17.40% above the first 9-month figure in 2021 but merely -5.81% short of the N39.75trn recorded in FY 2021. The distribution of trade shows the country recorded a trade surplus of N3.44trn within the 9month of 2022 compared with a trade deficit of N45.92bn recorded in the 9month of 2021. Thus, the country exported more than it imported in 2022, albeit dominated by crude oil export which accounted for about 79% of total export. The country recorded an increase in imports but at a low phase. Analysts say there is a sustained preference for and frivolous demand of foreign products despite the nonstop depreciation of the naira. While the country still depends largely on crude oil exports, growth in crude oil export has remained unimpressive, suggesting a grim picture for foreign trade projections. In the same way, foreign investors have rebuffed the Nigerian market on infrastructural deficits, supply bottlenecks, inefficient ports, and inadequate electricity supply. Analysts say the current level of insecurity and the possibility of political instability associated with the elections would continue to dampen Foreign Direct Investment (FDI) in Nigeria. Nigeria's capital importation dipped by -28.31% Q-O-Q in Q1 2022 and dipped further by -5.04% Q-o-Q to hit US$1.53bn in Q2 2022. FDI and portfolio investment recorded a downward trend in 2022, slumping by -5.04% and -20.91% Q-O-Q in Q2 2022, respectively. Whereas the trend reflects significant depreciation of the Naira within the period, which eroded gains on investment in the country, rising recession fears and continuous rate hikes would have induced more pullback in capital imports for the rest of the year. Analysts are concerned that FDI contributes only 10% to the country's capital account while other less patient capitals account for about 90%.

2022 Nigeria's Economic Outcomes in Numbers

Economic indexes that tracked Nigeria's macroeconomic changes in 2022 suggest a rather tight business environment and high living costs in 2022 (*see table 3*).

Table 3:

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.

Leading economic indicators in Nigeria points to a not-so-impressive but moderate outlook for Nigeria in 2023 (*see table 4*).

Table 4:

NIGERIA'S LEADING ECONOMIC INDICATORS AT A GLANCE

	2020	2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Interest rate (MPR)	12.5%	11.5%	11.5%	13%	15.5%	16.5%
Bond yield (on 10year bond)	12.5%	12.5%	12.5%	12.8%	12.5%	12.5%
Productivity (Nominal GDP in trillion)	N154.25	N176.08	N45.90	N45.51	N53.18	-
PMI	49.23	54.08	55.03	53.53	53.07	53.95
Gross Fixed Investment (Y/Y and Q/Q change)	14.59%	40.46%	(8.97%)	(16.62%)	-	-
Oil Rig Count	11	7	8	11	9	7

Source: NBS, DMO, OPEC, Proshare Research

Proshare.

Nigerian investors with diversified portfolios enjoyed a moderate gain on an investment in 2022, albeit moderated by naira depreciation and crypto slump for young investors (*see table 5*).

Table 5:

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	Naira redesign. Strengthening of naira in the parallel market. Hawkish Monetary policy.	Hedge against inflation. Monetary policy rate hikes. Negative real yields.	Strong dollar. FX scarcity. Inflation.	Geopolitical tensions. Monetary policy rate hikes. Inflation.	High return on investment. Hedge against rising inflation. Depreciation of naira.	The collapse of FTX and Tera Luna. Celsius Network and BlockFi filing for bankruptcy. Investors skepticisms.

Source: NGX, DMO, FMDQ, Proshare Research

Proshare.

Rethinking Economic Policy

Whereas development plannings in Nigeria predate the country, dating back to the colonial period, the approach to formulating and implementing the plans has so far failed to adequately address the pressing challenges of the country. Nigeria has implemented tens of development plans to accelerate economic growth, improve living standards, and tackle legacy challenges in the country, including extreme poverty, youth unemployment and underemployment, rising inequality, and other macroeconomic challenges. Arguably, analysts believe the improvement in the Nigerian economy has been unimpressive, including periods when development plans were implemented (*see table 6*).

Table 6:

OVERVIEW OF DEVELOPMENT PLANS AND ECONOMIC EXPERIENCE

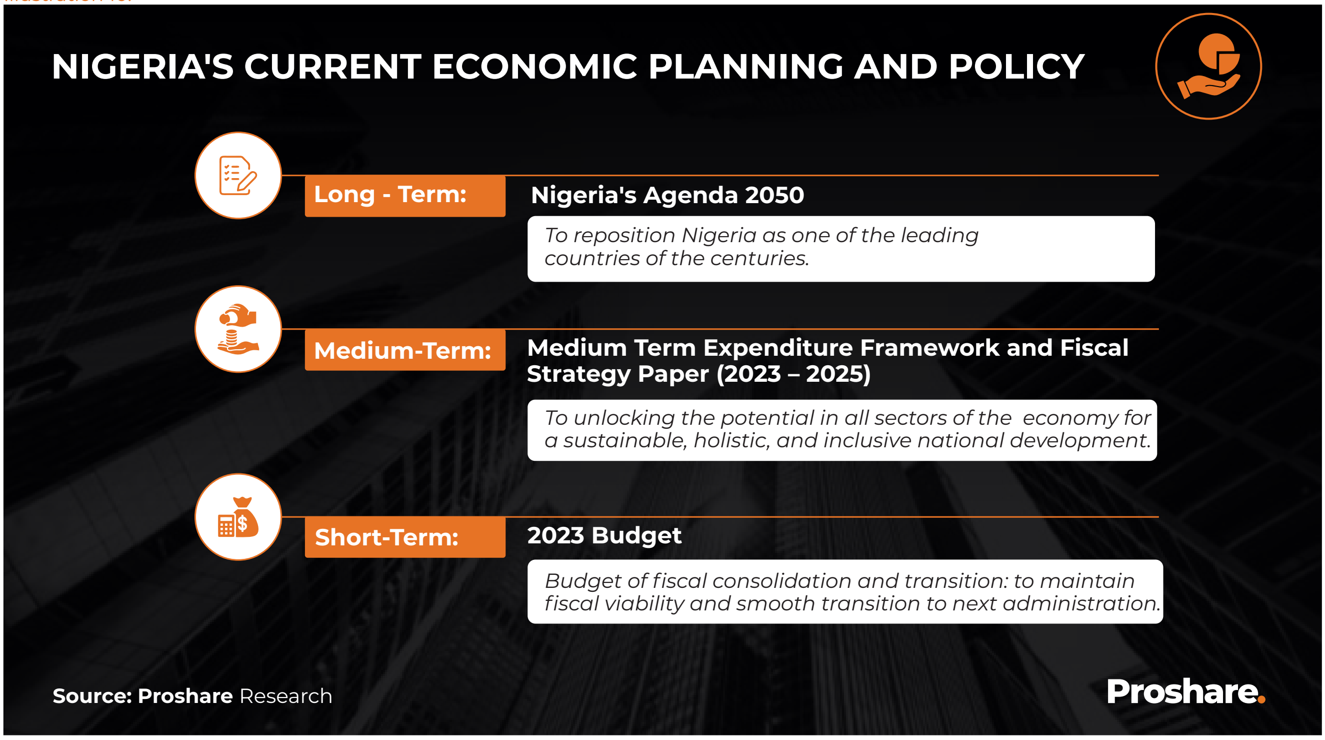
Period	Development Plan	Average GDP Growth Rate (%)	Population Growth Rate (%)	Poverty Rate (%)
1962 - 1975	First and Second Development Plans	9.4	0.5	48
1975 - 1990	Third, Fourth, and Fifth Development Plans/ SAP	-0.7	1.8	58
1990 - 1999	Rolling Plans	2.8	2.8	70
1999 - 2007	National Economic Empowerment and Development Strategy (NEEDS)	6.5	3	50
2007 - 2012	NEEDS II, Seven Point Agenda, and Nigeria Vision 20: 2020	6.98	3.2	60
2013 - 2015	First National Implementation Plan and Transformation Agenda	4.83	3.2	23
2017 - 2020	Economic Recovery and Growth Plan, Economic Sustainability Plan	1.26	2.6	40

Source: NBS, Ministry of Budget and National Planning

Proshare.

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. Consistent lack of alignment among these anchors in Nigeria's national planning weakens the linkage of plans to annual budgets. Current economic policies in Nigeria are defined by three plans- The long-term plan, the medium-term framework, and the short-term budget cycle (*see illustration 10*).

Illustration 10:



Notwithstanding the planning, analysts say the development plans and budgeting will leave little to be desired for the country unless there is a rethinking of economic policy. The long-term plan, being formulated in the "Agenda 2050", defines the broad aspiration of the country to achieve inclusive growth through the implementation of an economic transformation plan aimed at mitigating current developmental challenges and attaining the upper middle-income country status. Specifically, the agenda target an average real GDP growth rate of 7%, a GDP of about US$12trn by 2050, and a per capita income of US$33,000 per annum. With an actual real GDP growth of 3.40% in 2021 and a prorated growth of 2.25% in 2022, analysts say the country is not on course to purpose, and a different approach to planning and implementation is required to achieve the purpose. Having adopted plans that rest principally on the federal dominance structure, there is a call to give greater roles to sub-nationals in national planning and implementation for inclusive implementation and broad-based monitoring and evaluation. There has been no justification to maintain the centralized implementation mechanism in achieving the long-term Agenda.

Nigeria's pre-budget medium-term plan is currently conceptualized in the Medium-Term Expenditure Framework and Fiscal Strategy Paper (2023 – 2025) targets unlocking the potential in all sectors of the economy for sustainable and inclusive national development. The plan is designed as a measurable framework that underscores the nexus and implementation of the National Development Plan 2021 – 2025 (NDP 2021-25) with budgeting. While past medium-term plans/frameworks largely leverage public-private partnership (PPP) on paper, the MTEF/FSP is even largely a federal government plan in formulation and enforcement. A different outcome would require a much different approach. Analysts say a PPP approach to the formulation of medium-term plans with private sector execution and financing and government monitoring and evaluation would offer better outcomes.

Although the 2023 budget is anchored on fiscal consolidation and changing macroeconomic realities, analysts believe it lacks the capacity to alter the trajectory of the Nigerian economy, albeit the assumptions are not out of place. GDP growth will not improve significantly, and the unemployment rate, at 33.3% as of 2020, would not also improve by the plan to spend only N5.97trn (28% of the 2023 budget) on Capital expenditure while fiscal deficits grew from 26% of the budget in 2022 to over 50% in the new budget. For analysts, growth will only be impressive and job-creating when the government, the largest spender, allocates spending efficiently and generate revenue innovatively.

From highlights to insights.

Nigeria On A Fiscal Cliffhanger: **Any Game Changers?**

The slump in crude oil production and revenue combined with rising debt service costs have generated concerns about the fiscal health of the Nigerian government. With the national debt profile set to hit N77trn (around US$120bn) this year up from N44.1tr in 2022 and FG's debt service cost of N6.3trn corresponding to 29% of total expenditure, the country appears to be in a Fiscal Cliffhanger. But while there is a consensus on the dire nature of fiscal sustainability judging by the government's books, officials and analysts have differed on the exact nature of the problem, as well as on the right course of action. It is noteworthy to mention that the spike in the country's official debt profile is because of the FGs plans to securitize the N22.7tr overdraft of the Federal Government drawn in form of ways and means advances from the Central Bank of Nigeria (CBN). For what should be a lender of last resort, the amount in question is enormous and in fact in violation of provisions of the CBN Act 2007 which limit such advances to 5% of the revenue generated by the Federal Government in the preceding year and also requires that all prior overdrafts be settled before any new overdrafts are drawn on the Apex bank.

Since 2020, when the JP Morgan Emerging Market Bond Index (EMBI) Global spread for African issuers spiked the FG has found new issuances prohibitively expensive shoring up the shortfall in oil revenue with foreign loans has been increasingly difficult and expensive. For instance, the Ministry of Finance and Central bank of Nigeria hit the international debt market in March, issuing a $1.25billion Eurobond at a coupon rate of 8.37%, which was 200bps higher than the rate on the previous issuance in 2021 and some 40bps premium over secondary market levels for the on-the-run notes. It became a matter of importance for the Federal Government to prioritize domestic borrowing, particularly by way of Treasury Bills and Bond Issuances as well as CBN ways and means advances. The CBN ways and means advances were preferable because it is readily available as the government did not require to meet certain listing requirements as would be the case with Treasuries and Bonds. But the CBN W&M also comes at a cost. According to the Minister of Finance, the Federal Government services its obligation.

The debt service cost for 2023 is 71% higher than the 2022 estimate due partly to a planned interest payment of N1.2tr for Ways & Means as well as a revenue drag which is expected to improve slightly. JPMorgan had removed Nigeria from its list of emerging market sovereign recommendations that investors should be 'overweight' in because the country has failed to convert higher oil prices to broader fiscal space. The total revenue available to fund the 2023 FG Budget is estimated at N11.05trn, 21% of which is expected from oil-related sources, while 79% is to be earned from non-oil sources. But while CIT, VAT, and Customs collections in 2022, retained revenue underperformed by 29% in 11M 2022. The concerns around debt sustainability and vulnerability are amplified by the country's rank on Bloomberg's sovereign Debt Vulnerability Ranking (*see table 7*).

Table **7**

Table 7:

RANKING NIGERIA'S DEBT SUSTAINABILITY 2022

Country	Sovereign Debt Vulnerability Rank	Govt. Bond Yield (%)	Interest Expense 2022 (% GDP)	Govt. Debt 2022 (% GDP)
EL Salvador	1	31.8	4.9	82.6
Ghana	2	17.1	7.2	84.6
Tunisia	3	32.1	3	87.3
Pakistan	4	16.8	4.8	71.3
Egypt	5	13.2	8.2	94
Kenya	6	14.6	4.4	70.3
Argentina	7	20.7	1.7	74.3
Ukraine	8	60.4	2.9	49
Bahrain	9	6.6	4.5	116.5
Namibia	10	9.4	4.2	69.6
Brazil	11	6	7.2	91.9
Angola	12	12	4	57.9
Senegal	13	10.2	2.1	75.3
Rwanda	14	8.9	2.5	72
South Africa	15	7.3	4.7	70.2
Costa Rica	16	7.6	5.2	69.4
Gabon	17	11.7	2.4	57.4
Morocco	18	7.3	4.7	70.2
Ecuador	19	13.3	1.3	62.2
Turkey	20	10.1	3	43.7
Dominican	21	7.9	2.9	59.4
Ethiopia	22	33.9	1.1	48.3
Colombia	23	7.3	2.9	60.6
Nigeria	24	12.8	2.3	37.4
Mexico	25	5.5	4.5	58.4

Source: IMF, **Proshare** Research

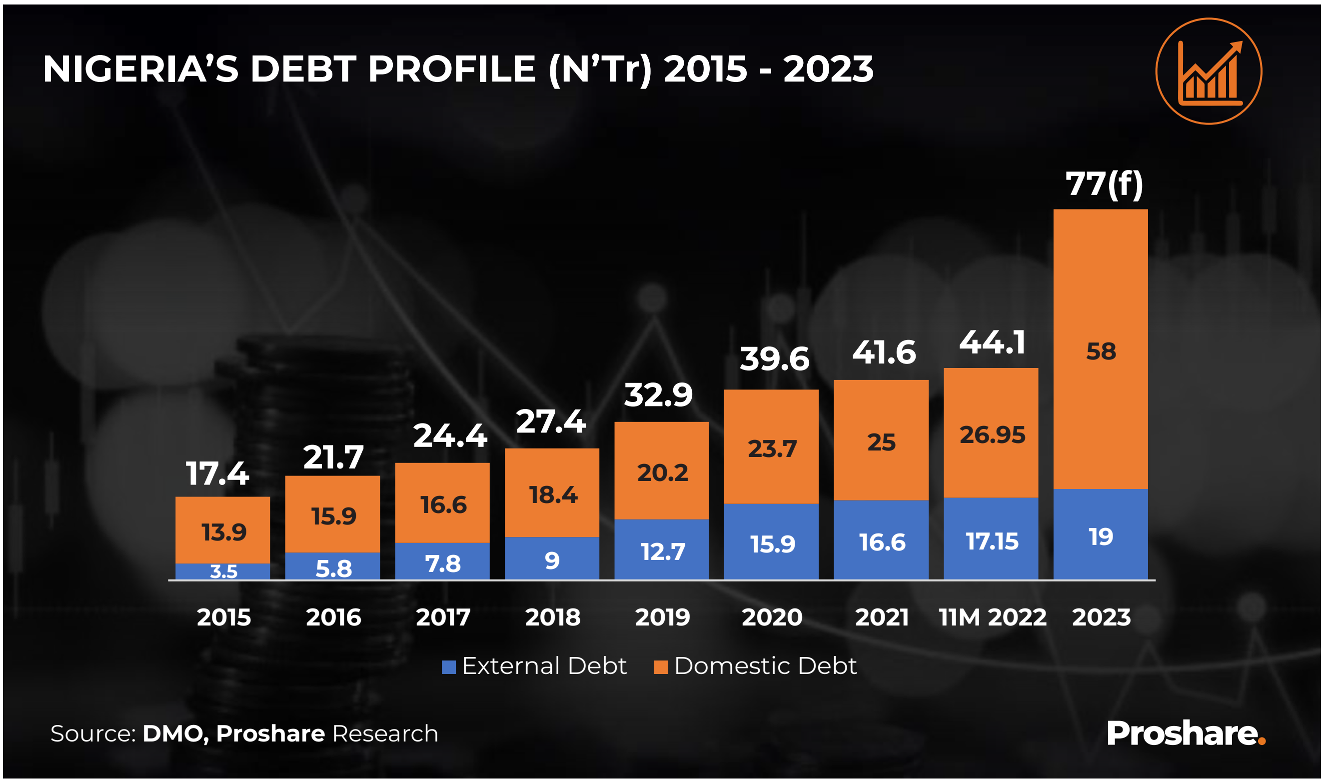
Proshare.

Borrowing Better for Deficit Financing

The overall budget deficit for 2023 is N11.34tn. This represents 5.03% of GDP. The budget deficit is to be financed mainly by Domestic borrowings (N7.04trn), Foreign borrowings (N1.76tn), multi-lateral/bi-lateral loan drawdowns (N1.77bn), and Privatisation Proceeds (N206.18 bn). While presenting the approved 2023 budget to the public, the Minister of Finance noted that as the CBN Ways and Means (W&M) overdraft balance of N23.2tr is financed at MPR +3% and that the government plans to save between N1.8trn and N2trn by converting the existing loans to a 9% paying security with a 40-year maturity and a three-year moratorium. This has raised questions about the over-dependence of the Federal government on printed money from the CBN to prosecute budgetary operations, much in violation of the CBN Act which restricts the use of the W&M facility to a short-term window not exceeding one fiscal year.
But this episode also raises questions about the debt management strategy of the country. The government borrows domestically and abroad at a high cost that puts a strain on future revenue and foreign reserves. The planned debt servicing cost of N6.55tr in 2023 raises concerns related to:

- The country's debt stock which was N44.1tr would now rise to N77tr.
- Debt to GDP ratio which was at 22.97% as 9M 2022 rises to 35%.
- The debt service to Revenue ratio which reached 80.7% (11M 2022) would remain high in 2023 at 57% (presuming 100% revenue performance).
- Revenue performed 71% as of 11M 2022, if we assume the same performance in 2023, projected revenues for 2023 would come in at N7.84tr while the ratio of Debt service to Revenue rises from 57% in the base case to 84%.
- The recourse to the domestic debt market would mean that private-sector borrowing would be crowded out.
- The larger debt repayment burden implies that higher future taxes are in the offing (*see illustration 11*).

Illustration 11:



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 experts say ahead of the country lie two paths, one to a scenario of high liquidity which they call 'Eldorado', and the other to insolvency.

In the doom and gloom scenario, the FG would continue:

- To rely on revenue from oil exports and royalties from the National Oil company.
- To borrow at a higher cost through the issuances of IOUs and Promissory notes.
- To rely on taxes as a means of raising revenue, especially while the businesses and economic units concerned operate in contracting sectors.

To refuse to issue licenses in growing sectors while failing also to offer equity investment opportunities in government-owned assets and companies to domestic investors.
In the Eldorado scenario, Nigeria opens its foreign investment deal book and aggressively increases its deal count. India presents a perfect case in point. The southeast Asian economy a couple of years ago offered deals in 15,000 assets seeking to earn $1.9tr in FDI which translates to a $100bn annual target. Saudi Arabia also adopted a similar model, after launching its 2030 National Transformation Plan in 2017, seeking $200bn in FDI it opened deals opportunities in 16 different sectors.

- FG would substantially increase its Revenues through the issuance of Licenses for greenfield investment in critical sectors.
- It would 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.
- Reduce the cost of borrowing by exploring better debt management strategies namely borrowing against the government's financialized assets rather than borrowing against revenues from crude oil sales that are volatile and declining.
- Increase the accretion to the reserves to improve external sector liquidity and reduce domestic inflation (*see illustration 12*)

Illustration 13:

Illustration 12:

TWO TRACK PROJECTION OF NIGERIA'S DEBT SUSTAINABILITY

Debt Sustainability Scenerios

Doom & Gloom scenario

Oil Exports and Royalties

To rely on revenue from oil exports and royalties from the National Oil company

IOUs and Promissory notes

To borrow at a higher cost through the issuances of IOUs and Promissory notes

Taxes

To rely on taxes as a means of raising revenue, especially while the businesses and economic units concerned operate in contracting sectors.

Refuse to Issue Licenses

To refuse to issue licenses in growing sectors while failing also to offer equity investment opportunities in government -owned assets and companies to domestic investors

Eldorado

Licenses for Greenfield Investment in Critical Sectors.

FG would substantially increase its Revenues through the issuance of Licenses for greenfield investment in critical sectors.

Open Equity Investment Opportunities

It would 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

Better Debt Management Strategies

Reduce the cost of borrowing by exploring better debt management strategies namely borrowing against the government's financialized assets rather than borrowing against revenues from crude oil sales that are volatile and declining.

Opening the Capital Account Up

To refuse to issue licenses in growing sectors while failing also to offer equity investment opportunities in government -owned assets and companies to domestic investors

Source: **Proshare** Research

Proshare.

What 2023 Has In Stock For Nigerian Businesses.

What 2023 Has In Stock For Nigerian **Businesses.**

In light of the numerous problems that the operations of Nigerian businesses were confronted with, the year 2022 was far from memorable. While quite a number of the challenges that characterized the business environment were peculiar to Nigeria most derived from the deterioration of the global economic condition with serious ramifications for Nigeria. Businesses were compelled to function in agonizing conditions, made worse by innate institutional inconsistencies, as the country fought to recover from the COVID-19 epidemic, which posed leadership and sustainability difficulties around the world. The Russian invasion of Ukraine when it began in February 2022 not only headlines for the humanitarian concern but because quickly it shifted the focus of business from COVID-19 recovery to sustainability considering the War's indirect consequences. Energy prices increased significantly because of the conflict, with Europe being particularly hard hit.

The breakdown in the **global supply chains** was further exacerbated by the conflict, endangering the viability of Nigerian businesses especially bakers and confectioners whose cost profile surged on the back of higher costs of flour, sugar, and wheat. Both MSMEs and large corporations continued to be concerned about how the conflict might affect the delivery of critical inputs commodities and energy. It did not help that the Black Grain Initiative which had allowed the exports of wheat, corn, and ammonia collapsed a couple of months after the agreement was signed. GDP grew by 2.97% in 9M 2022, but this is slower than the country's population growth rate (3.5%), hence the decline in per capita income and lower purchasing power. Businesses, therefore, had to navigate a higher-cost environment **while effective** demand for discretionary items was declining on the back of higher poverty levels. Judging by important business data releases, 2022 was more challenging than the preceding year. While many more Nigerian businesses opted for privately provided power, the Average **power generation** (MWh/h) was 4.735 in 2022 as opposed to 4.559 in 2021. In 2022 alone, the national power grid suffered eight collapses.

Businesses have had to spend billions of Naira for privately generated power in 2022. **Diesel/AGO cost** N288.09/litre in January 2022 up from N290/litre in December 2021. The price has since risen. As of December 2022, AGO sells for nearly N800/litre. Businesses had to revise their budgets following the variance between the expected and actual cost of fuel, thereby spending more than five times the amount originally budgeted. Without prejudice to the fact that the Federal government is confronted with arguably its worst fiscal challenge in history, the number of taxes levied on the revenue and profits of firms in recent years has been unprecedented. Businesses are required to pay over 50 various taxes, levies, and fees (both legally and illegally). These taxes included Company Income Tax, Stamp Duties, Petroleum Profit Tax, Capital Gains Tax, Value-Added Tax, Personal Income Tax, Withholding Tax, Tertiary Education Tax, One Percent of Payroll Contribution to NSITF, Ten Percent of Payroll Contribution to National Pension Commission, ITF, Levy, National Information Development Levy, Cabotage Levy, Radio and TV Licenses, Police Special Trust Fund Tax Levy, Niger, and One Percent of Payroll. A **Mass Exodus of Professionals** was witnessed in 2022. Businesses struggled to replace the large number of skilled workers ranging from Doctors, Nurses, Tech experts, and Data Analysts who migrated abroad in search of greener pastures in the year. Companies offered higher remuneration to encourage the remnants staff to stay but, in some cases, companies shut down sections as they could not staff segments of their operations. Also in 2022, **Legacy issues** related to the ease of doing business persisted. The activity of non-state actors, long dwell time at the ports, difficulty in obtaining licenses and permits, inability to enforce contracts, and lack of critical infrastructure all continued to play out in 2022 (*see illustration 13*).

Illustration 13:

- **Peering into the Crystal Ball**
  Our base case forecast suggests that, in 2023, a variety of factors would be critical in determining the outcome of large and small businesses. First, we believe that while energy and commodity prices may moderate slightly this year, the continued depreciation of the Naira would imply high domestic inflation, with our inflation forecasts showing that the overall CPI growth would come in at 18.6% FY 2023 only slightly lower than the 18.77% FY 2022 firms would continue to cope with the high-cost environment. The likely return to monetary policy neutrality later in the year would also be a risk factor for Nigerian businesses this year. Overall, depressed domestic demand would force businesses to review their offerings to separate segments of their respective markets.

- **Sector-specific growth outlook**
  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. The removal of the subsidy would result in higher pump prices, which could affect Transporters, but we expect that they would pass the same on to passengers. While the devaluation of the Naira would also affect the price of inputs, without any significant improvement in the situation at the ports supply bottlenecks that induce shocks would persist. The Financial sector would however record decent growth on the back of higher interest income as well as interest-related tax concessions. The Agricultural sector would suffer from the flash floods which occurred last year as well as the extant insecurity risks.

- **Access to Financing**
  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. The Federal Government looks to borrow N7.04trn by issuing Bonds and Treasury Bills. This Analysts believe would crowd out private-sector borrowing. New commercial paper (CP) issuances would have to be made at higher coupon rates. Last year, the issuance of CPs improved because of the need of many companies to recapitalize and expand their operations, and CPs were preferred by corporate borrowers over traditional bank credit due to their lower cost.

- **Access to FX**
  The foreign reserves are expected to flatline in 2023, with the expected commencement of the Dangote refinery, the demand pressure on the reserves would be less but on the flip side, an increase in crude oil production would also bring about an accretion to the reserves but if NNPC remittances to the CBN continue to falter, the reserves may not see any appreciation this year.

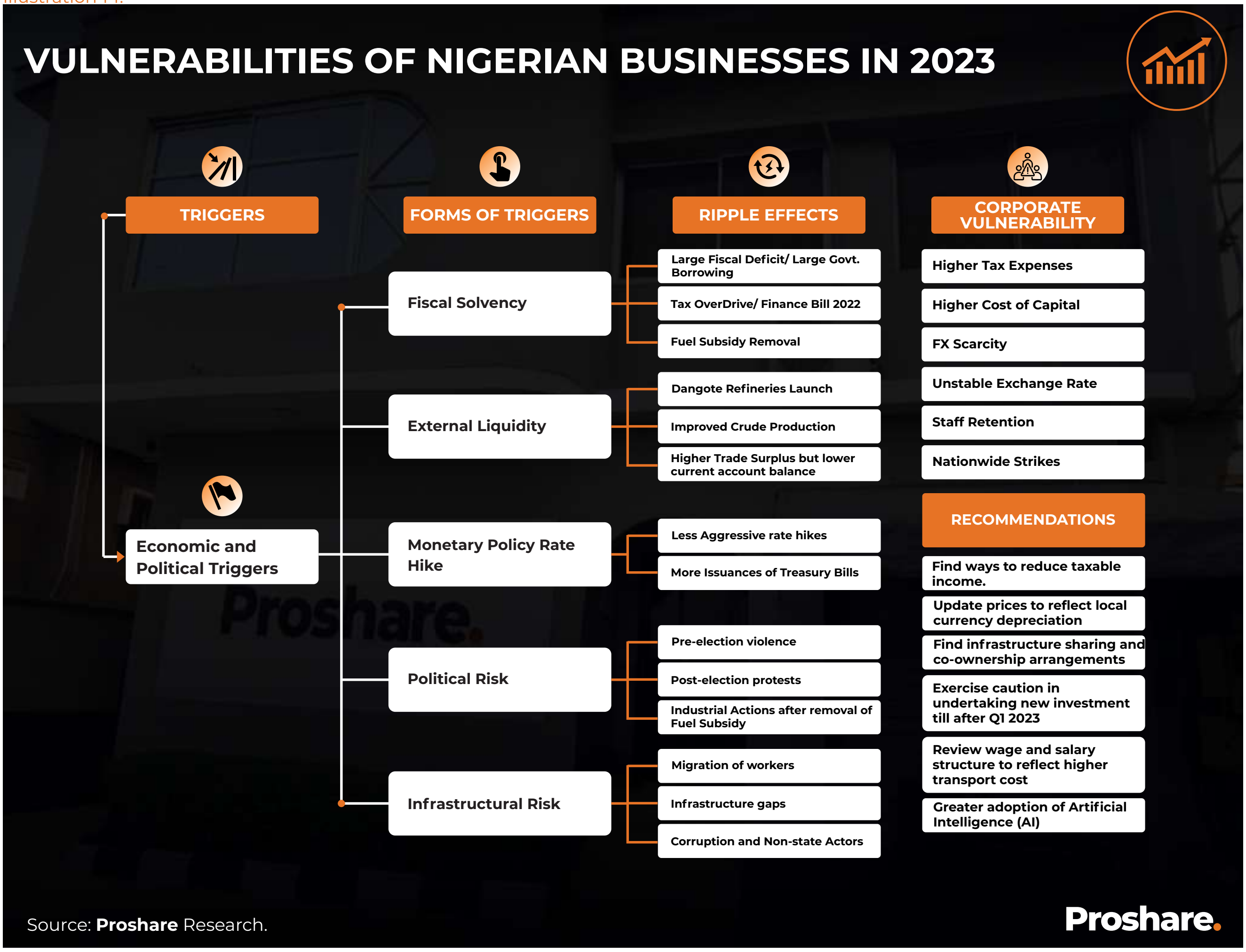
- **Profitability In the Face of Finance Bill**
  Nigeria's Finance Bill, 2022 proposes new excise duties applicable to Telecommunications and other services. Import duties of 0.5% are to be imposed on all eligible goods imported, while gains made in the form of convertible currencies would now be fully chargeable to Corporate Income Tax (CIT). These new levies and taxes would imply the earnings of many Nigerian companies in 2023. Clever business owners would find ways to reduce their companies' taxable income to pay out less in form of taxes.

- **Election Outcomes and new investment**
  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's population. Such post-election conflicts as were recorded in Brazil and other emerging economies could affect the Nigerian economy in H1 2022. On the flip side, however, the businesses that have held back new investment till a new government is inaugurated would also be motivated by the election of a President whose policies and programs they consider to be friendly.

- **Finding and Retaining Skill**
  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. Organizations would increase staff salaries to close the wage gap with the global average (*see illustration 14*).

Illustration **14**

Illustration 14:



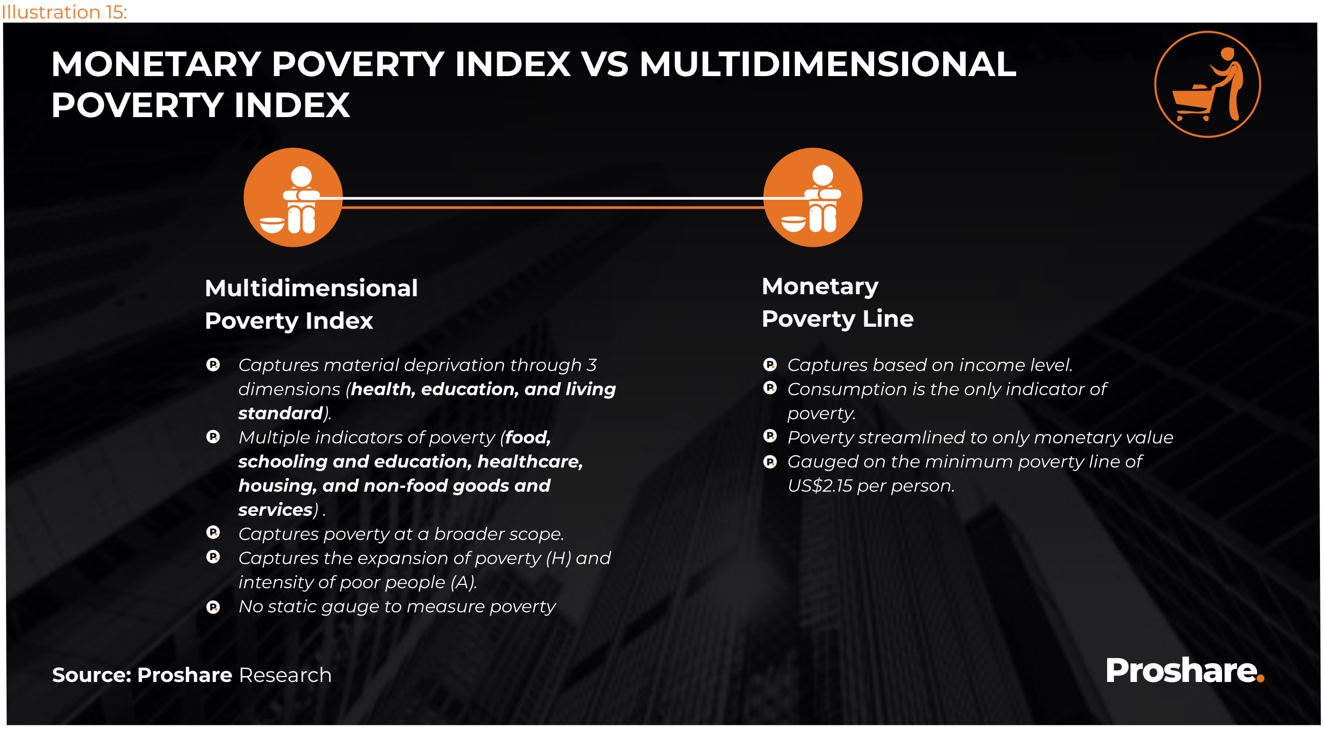
Source: **Proshare** Research.

The Nigerian Household In A New **Economy.**

The welfare of the average Nigerian deteriorated in the past year. The rising inflation triggered by the Russian-Ukrainian war took a toll on the welfare of the average Nigerian. The significant rise in the cost of clothing, housing, and food without a corresponding upward adjustment in wages crippled the income of individuals, making Nigerians poorer. According to the National Bureau of Statistics, 63% of Nigerians are multi-dimensionally poor, indicating 133m of the total population estimated at 211 million fell into the poverty net. Most Nigerian households were deprived of clean energy sources, quality healthcare, clean sanitation, and water as the cost of basic amenities doubled, making 7 out of 10 Nigerians living in rural areas and 4 out of 10 in urban areas fall below the poverty line. The data confirms that the cost of living spiked compared to the pre-covid period when the monetary poverty rate was 40.1% with about 82.9m people being poor according to the Nigerian living Standards Survey (NLSS) 2018/2019 data. The covid-19 and Russia- Ukraine war tossed more Nigerians below the poverty line.

Individual income relative to consumption expenditure used to be the poverty gauge traditionally, where people with insufficient income to purchase a basket of goods and services are deemed poor but the multidimensional poverty index gave a wider perspective to capturing the extremity of lack about education, health, housing, empowerment, clean water, and sanitation. The multiple deprivation indicators access poverty at an individual level which shows that an individual is deprived when three or more of the indicators fall below a particular benchmark. World bank embraced the MPI with the inclusion of monetary poverty line at US$2.15 after detecting that the monetary poverty index did not capture 39 percent of multidimensionally poor people that were deprived in non-monetary dimensions alone. Experts believe the multidimensional poverty index is more effective as a measure of poverty as it covers acute deprivation based on household characteristics compared to the monetary poverty index limited to income only (*see illustration 15*).

Illustration 15:



Per Capita GDP

The downward trend of the country's per capita income explicitly showed the diminishing welfare of an average Nigerian. The country's per capita income has dropped from a peak of US$3201 in 2014 to US$25757.46 in 2016 due to the recession and the 2020 recession gave a further dip to US$2396. However, the recovery in 2021 did not translate to a higher per capita income with the country's fast-growing population (estimated at 211m), further weakening the per capita income to US$2065.7 according to world bank data.

Inequality

As revealed by the 2022 multidimensional poverty data, the gap between the rich and poor has grown bigger with the high deprivation of basic amenities in the country, only 83m people had access to healthcare, education system, and housing as against 133m poor individuals. The impoverished Nigerians are clustered in the north with 86 million poor people and a lesser number of 47 million people in the south. Across states, Sokoto had the highest percentage of 91% and Ondo state the least at 27%, justifying the wide margin between the rural and urban areas. The wide intra-country wealth distribution might hinder the possibility of poverty reduction in the country and necessitate the need for intervention in the northern region of the country to prevent a future escalation of criminal activities.

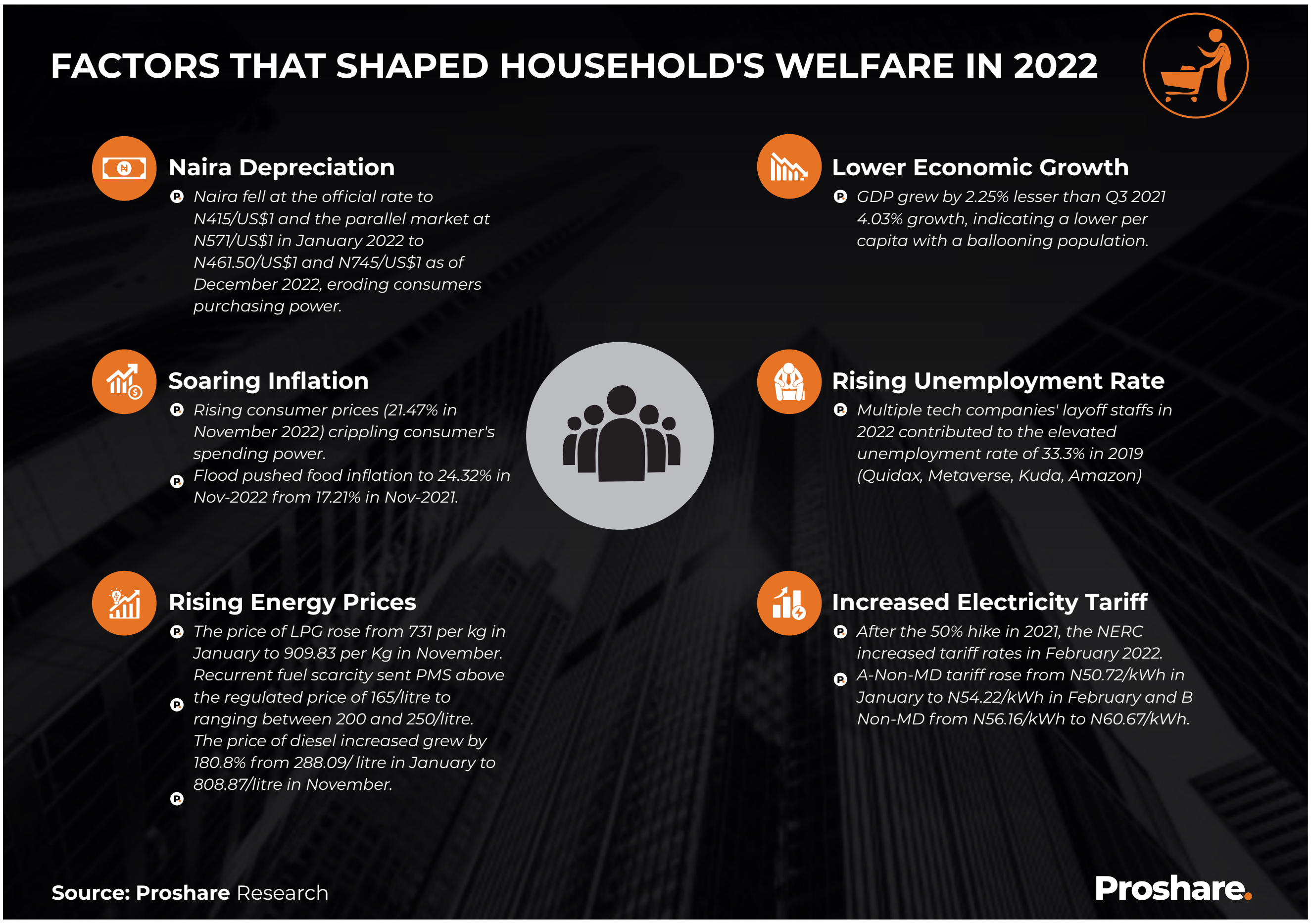
Insecurity

In the pre-election year, insecurity became a subject of worry with the escalation in terrorist attacks, abductions, and herdsmen attacks. The insurgency spread to all regions, heightened by the terrorist attack on Abuja to Kaduna train, where many were killed and held captive for months, the Ondo state church attack, and much more violence was seen in different regions. The mass abduction and attack on farmlands and individuals became a hindrance to productivity, unleashing intense fear and tension in the country. People had to neglect some specific routes and roadmaps due to the rage of the attacks coupled with the electoral campaigns during the period. The insecurity fueled the migration of individuals and companies to safer countries.

Amidst other contributory factors, the incessant depreciation of the naira against other major currencies has been another limiting strain to the improvement of Nigerians' welfare, given that Nigeria is an import-dependent country. The possibility of a better standard of living seems to dampen every passing year for an average Nigerian, looking at the deteriorating inflation, currency, and insecurity (*see illustration 16*).

Illustration **16**

Illustration 16:



Youth Migration: Dodging the Bullet

Nigerians have been trooping out of the country in a bid to better their earnings, standard of living, and safety nets to cater to their families. The rising unemployment rate, lack of quality basic infrastructure, heightened insecurity, and poor governance fuelled aggressive migration to other countries in recent years. Although the evolution of technology promoted migration to vast growing regions globally, the inherent economic hardship of the country and the large unemployed population spurred the huge shift in Nigeria.

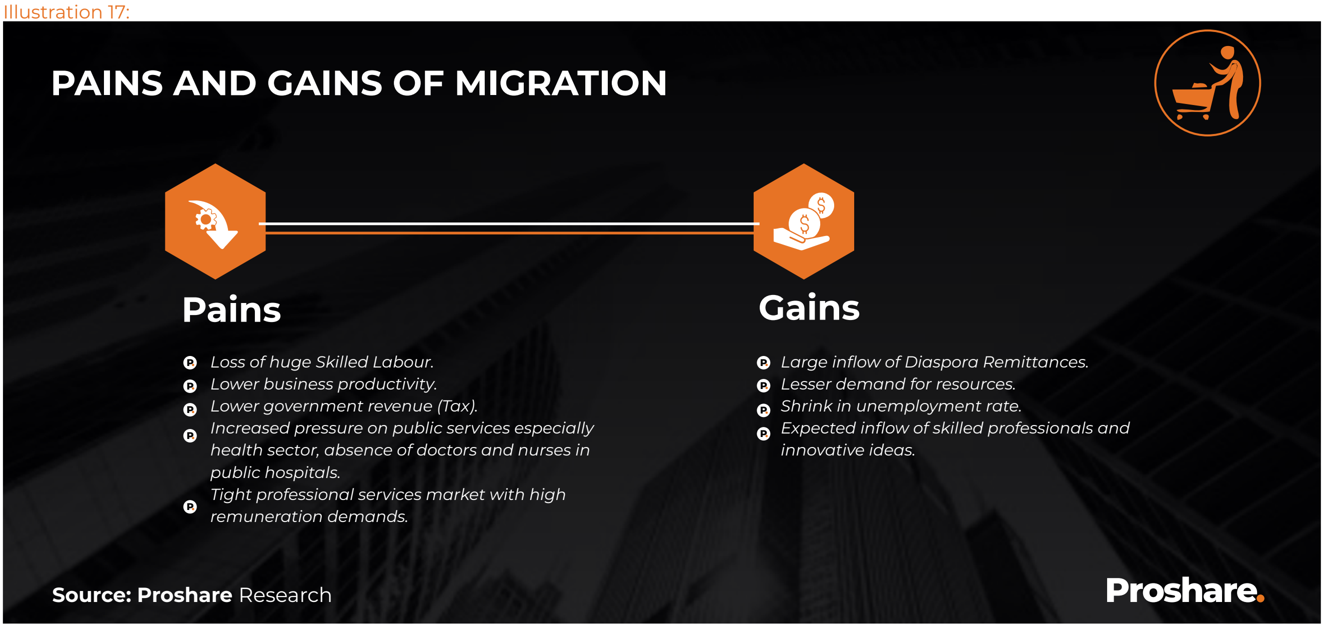
From a positive lens, the relocation has been beneficial in terms of diaspora remittances. According to the central bank of Nigeria, diaspora remittances into the country grew by 11.2% to US$19.2bn in 2021 and increased by 9.6% between January and June 2022. However, the demography of the emigrant poses a threat to the Nigerian economy, seeing that the skilled workforce dominates the number of people exiting the country such as doctors, Nurses, IT engineers, and others. The number of emigrants has grown significantly, particularly to countries such as the United Kingdom, Canada, the United States, Germany, and others.

According to a UK immigration report, Nigerian immigrants to the UK has risen by +686% from 8,384 in 2019 to 65,929 as of June 2022, the highest percentage growth in the top 5 countries through study visa. Out of the total sponsored study visas for both principal applicants and dependents, Nigerians accounted for 12% of the total population with the highest number of dependents accompanying persons with a study visa for a single country. The data from the Nursing and Midwifery Council (NMC) in the UK revealed that Nigeria-trained nurses increased by 68.4% from 2,790 in March 2017 to 7,256 in March 2022. Likewise in Canada, 12,595 Nigerians relocated to Canada in 2019 alone and over 15,000 were granted permanent residency in 2021.

The massive human capital export might not abate anytime soon, given that many Nigerians see it as an escape route from the jaw of poverty. A recent PEW research survey confirmed that 45% of Nigerian adult plans to relocate to another country within five years, the highest among the 12 countries surveyed from Africa, the Middle East, Europe, and North America.

Considering that the skilled labour force is an integral trigger for growth in an economy, a continuous human capital export might be detrimental to the country in the long run. The country needs to address the issues of unemployment, health, and security to reverse the trend, seeing that the negative effect outweighs the gains (*see illustration 17*).

Illustration 17:



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. All of that, as well as higher electricity costs, would reduce the purchasing power of the Nigerian household. The population of unemployed Nigerians can avoid the industrial sector which has been characterized by slowing growth, the logistics, and transport sectors, as well as the Financial and Insurance sector, offer better opportunities. 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 (*see illustration 18*).

Illustration **18**

Illustration 18:

Transitioning Scenarios:
Summary of 2023 Outlook.

Transitioning Scenarios: **Summary of 2023 Outlook.**

We project that the Nigerian economy would record a 2.9% growth rate in 2023. The Agricultural sector is expected to grow at 1.97% under the impact of the floods last year as well as insecurity in the farming areas. The industrial sector is expected to continue to contract on the back of rising interest rates, higher electricity costs, and new import duties proposed in the Finance Bill. The Services would continue to make the largest contribution to the country's GDP although growth in the Telecoms sector would be moderated by the new duties contained in the 2022 finance bill. In terms of the policy environment, Analysts say that Federal Government's actual deficits would exceed 5% of the budget despite the performance on VAT, Customs collections as well as Corporate Income Tax (CIT). Despite the expectation that global commodity prices would moderate in 2023, we believe Inflation would remain high under the impact of the phased removal of fuel subsidy planned to commence in April, the increase in electricity tariffs, and the further depreciation in the naira. The commencement of operations at the Dangote refineries and improved crude oil production could support the FX reserves marginally, although gains could be counteracted if NNPC remittances to the reserves do not improve. Meanwhile, the Monetary Policy Rate (MPR) is expected to reach 18% by year-end as the MPC continues to tamp down rising inflation, but real returns would remain negative.

In a population census year with an estimated population of over 200million people as of 2022 and about 70% below 45 years in age, the strategic architecture of statecraft and economic management would be critical in shaping the future. We believe the census would be more meaningful if conducted by the new administration as planning and economic tools and not political tool. Additionally, we expect the lack of advanced technologies to weaken the integrity of the 2023 census. The shortest distance between government and the citizens is integrity and technology is an enabler for validating the integrity.

Key Highlights

- 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.
- 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$.

Drivers

- 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.
- Q4 2022 GDP likely dropped from the recent flooding and its knock-on effects.

- CBN's more hawkish stance constitutes downside risks to growth.
  The risk of social unrest post-elections and industrial actions post-removal of fuel subsidies could also affect the outcomes for 2023.

Table 8:

DOMESTIC ECONOMIC FORECASTS

	2020	2021	2022e	2023f
Real GDP growth (%)	-1.9	3.4	3.0	2.9
Agriculture	2.17	2.13	1.92	1.97
Industry	-5.85	-0.47	-5.2	-4
Services	2.22	5.61	7.05	13.8
Current account/GDP (%)	-1.2	0.2	1.7	0.7
	2020	2021	2022	2023f
Inflation (FY) (%)	13.21	16.98	18.77	18.6
Monetary policy rate (%; year-end)	11.5	11.5	16.5	18.0
Bonny Light (end-period; US$/b)	52	79	86	77
Bonny Light (average; US$/b)	44	72	101	80
Official FX reserves (in US$'bn)	35	41	37	37.5
N/US$ (I&EFX end-period)	410	424	445	491
N/US$ (Parallel Market- end-period)	470	560	740	765

Source: NBS, CBN, RateCaptain and **Proshare** Research

Proshare.

Table 9:

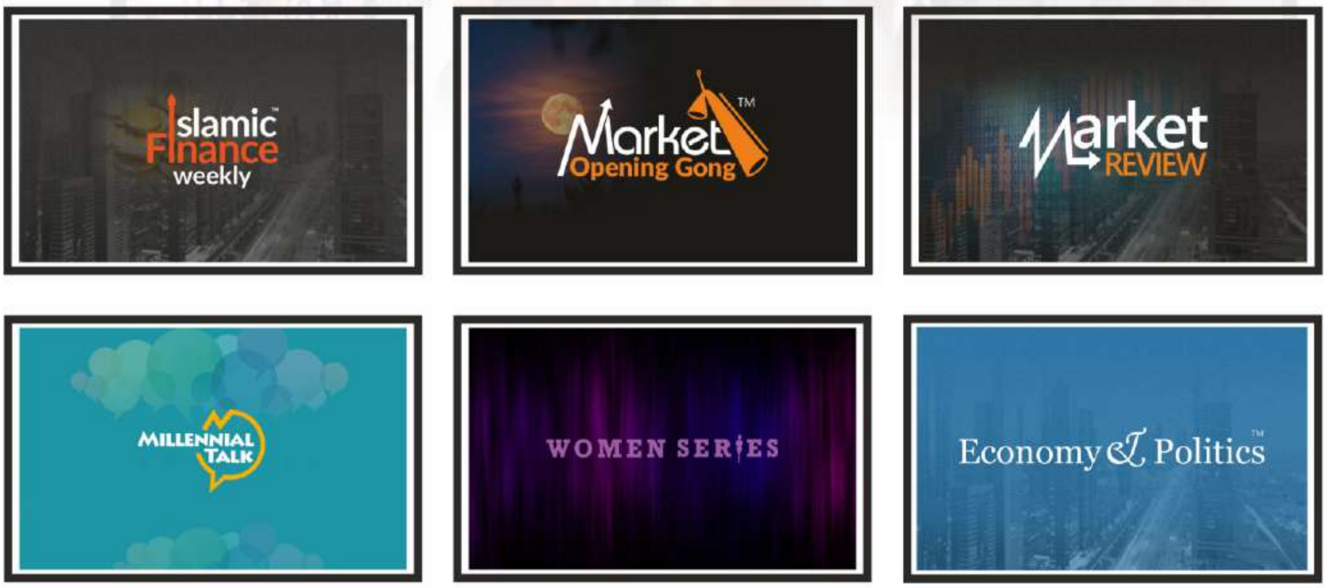
GLOBAL ECONOMIC FORECAST

	2021	2022e	2023f
Global GDP growth (%)	5.9	2.9	1.7
Global Inflation (FY) (%)	4.7	8.8	6.5
Brent (average; US$/b)	71	104	88
GDP growth forecasts (%) Analytical Groups:			
Advanced Economies	5.3	2.5	0.5
Emerging Market and Developing Economies	6.7	3.4	3.4
Regional Groups			
Latin America and the Caribbean	6.9	3.5	4.9
Sub-Saharan Africa	4.3	3.4	3.6
ASEAN-5	3.4	5.3	4.9
Major Economies			
United States	5.9	1.9	1.0
China	8.1	2.7	4.5
Euro area	5.3	3.3	0.5
Japan	2.2	1.2	0.7
Germany	2.6	1.5	-0.3
India	8.7	6.8	6.1
United Kingdom	7.4	3.6	0.3

Source: IMF, **Proshare** Research

Proshare.

Conclusion



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Conclusion.

2023 will be a year of opportunities wrapped in a gift box of uncertainties. The global markets will be marred by what International Monetary Fund (IMF), President Kristalina Georgieva, called '**fragmentation**'. She pointed out that the world was settling into several blocks of relationships, thereby limiting trade, and restricting the movement of people and capital, a phenomenon the Director of the World Trade Office (WTO), Dr. Ngozi Okonjo-Iweala, considered detrimental to global trade health.

The global supply chain bottlenecks will lead to higher prices and significant hikes in manufacturing costs, which would result in a higher cost of living and a lower quality of life. In Africa, the blowback would be several times more devastating as higher energy costs, interest rates, and inflation pushes consumers and manufacturers down deeper holes.

African economies will see commodity prices rise as supply disruptions put upward pressure on commodity prices and the modest growth of the Chinese economy slowly increases input demands. How much the rise in commodity prices can help African nations grow will depend on their import reliance. The more dependent the country is on imports the less beneficial the rise in commodities prices. Higher commodity prices would lead to higher input and finished goods costs and for countries with high import bills, this could hurt trade balances.

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.

Portfolio investors can cherry-pick hidden value opportunities in the market as corporate fundamentals would be discounted by fears of weakening underlying corporate fundamentals. With the agriculture sector growing at 1.2% in 2022, investors may remain cold on equities within this sector. How strongly investor sentiments will be towards agriculture would depend on how well companies transmute from agriculture to agribusiness and agritech.

Technology will play a large part in the growth of the country in 2023 as artificial intelligence and machine learning (AI/ML) scales up industrial production and service delivery quality and experience. The sector would provide larger job opportunities for young Nigerians that choose to acquire technical skills as it would condemn those trapped in the obsolescence of the pre-web 3-economy to joblessness.

The entertainment sector will flourish in 2023 but most of the industry value would reside outside the Nigerian economy as artists wary of heavy income tax payments decide to keep their operations in low-tax enclaves abroad. With the threat of higher taxes looming in Nigeria, the fiscal authorities would inadvertently push most of the entertainment value chain outside the country, thereby worsening domestic unemployment and lower revenues from value added tax (VAT), corporate income tax (CIT), and personal income tax (PIT). The government's tax policy will push the sector to the outer edges of what economists call the **'Laffer Curve',** or that point where higher taxes result in lower incomes.

Beyond taxes, subsidies and concessions are expected to be removed in 2023, but in January the Federal Government approved a N1.9trn tax credit to the national oil company, the NNPC Limited, in addition to the earlier N621bn in 2022, bringing total road infrastructure tax credit (RITC) to N2.52trn. Taiwo Oyedele, a partner at PwC, notes that at a 30% tax rate, the assumption appears to be that the company would make a pre-tax profit of N8.4trn; the profit figure is not impossible but starkly improbable.

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.

List of Illustrations and **Tables.**

Illustrations:

Tables:

Advice To Users of this **Report.**

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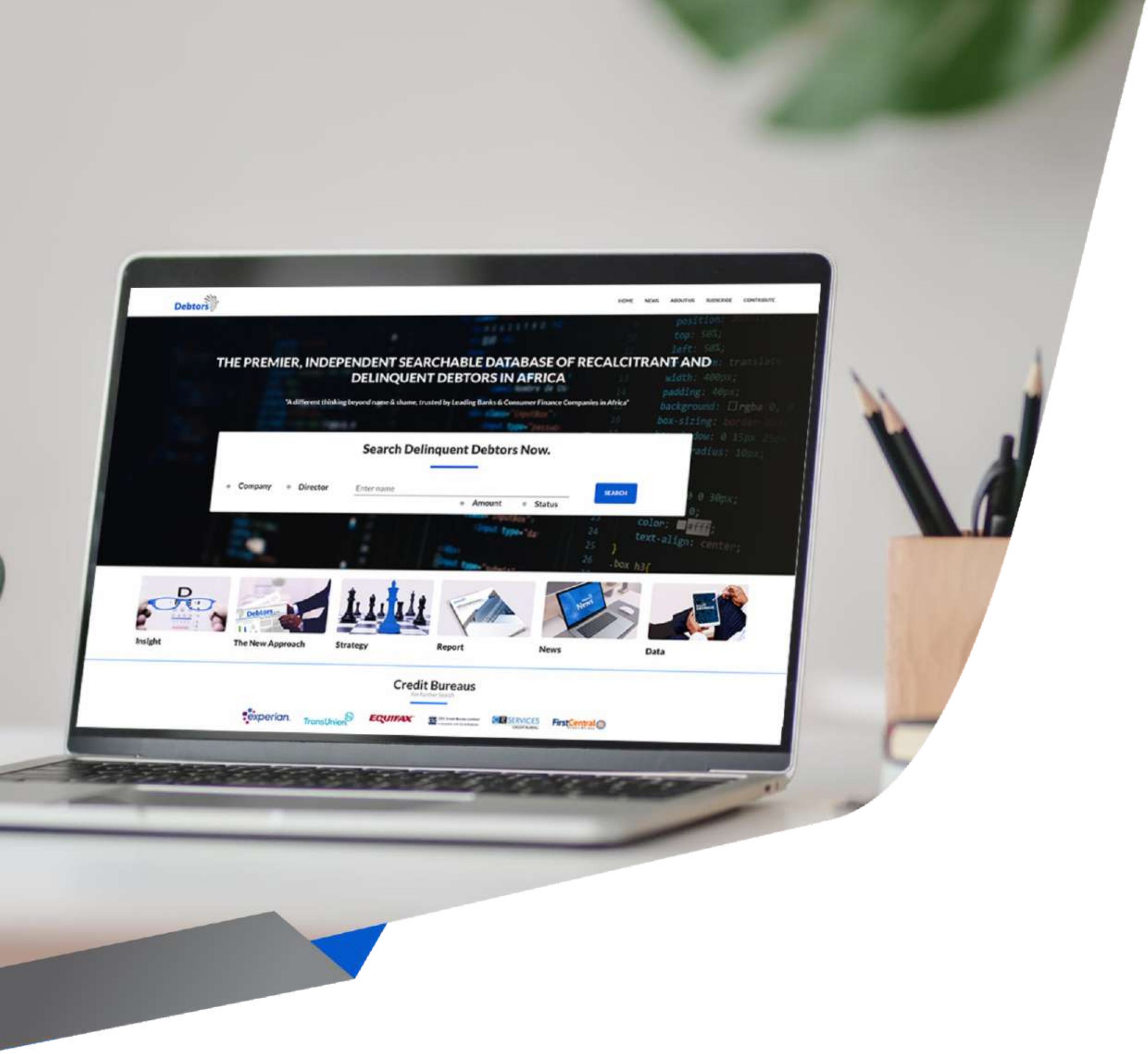
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