Proshare **Confidential**

2021 in the Rearview, 2022 in the Headlamp;
Opportunities and Threats in Nigeria's Pre-election Year

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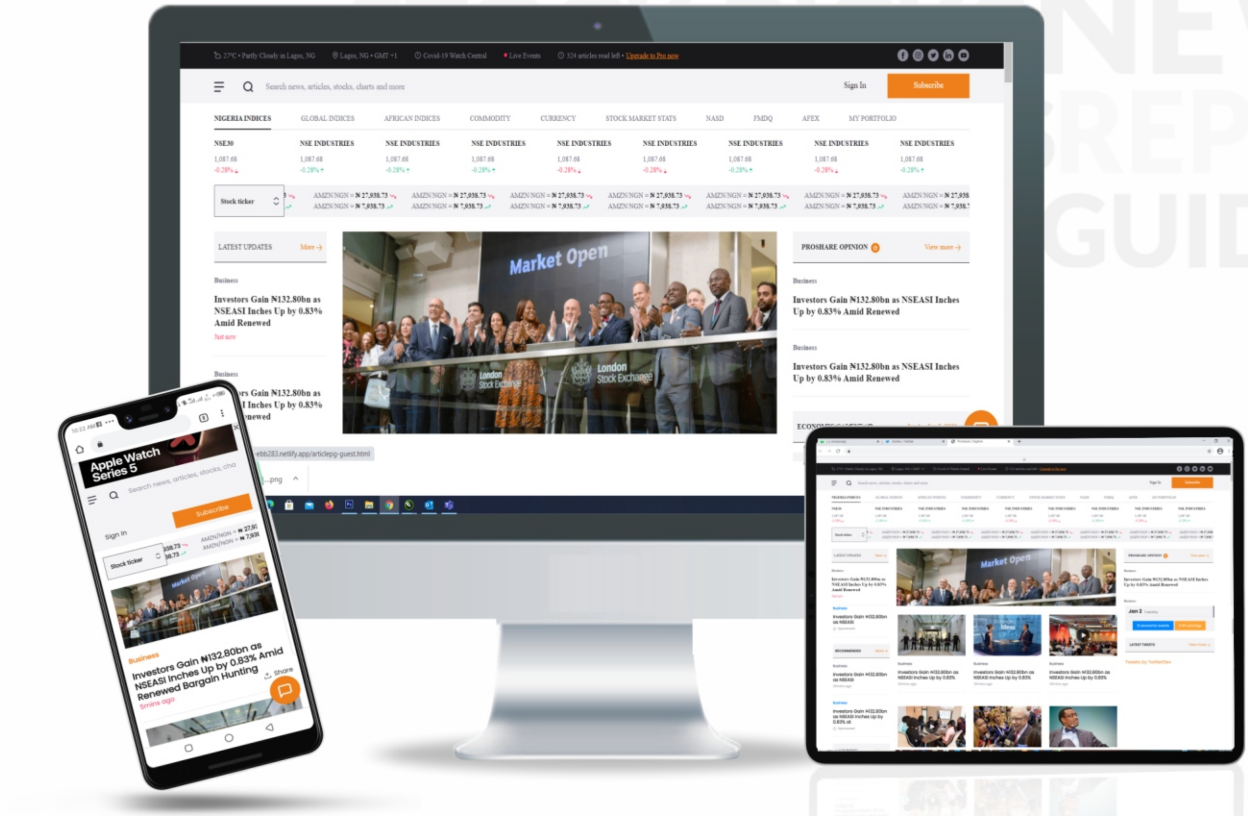
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Executive Summary

2022, The Economy in a Slippery Rebound

"What you do is either right or wrong depending on the terrain. In making decisions, seek clarity about the terrain to guide what you should or should not do."
-Dr. Ayo Teriba*, CEO Economic Associates (EA), at Proshares January 2022 Management/Board Retreat.*

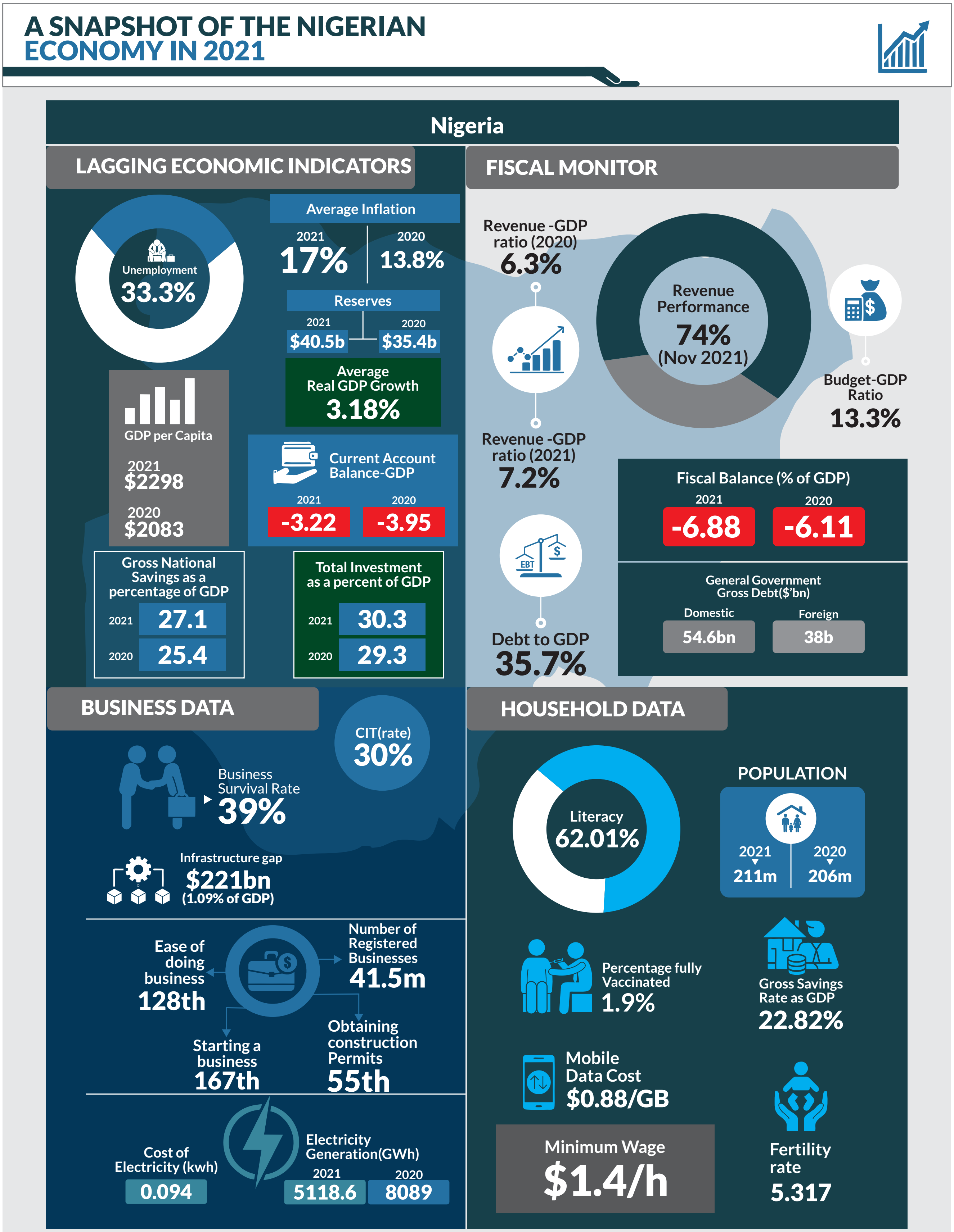
Teriba's observation speaks to the sifting parts of a conflicted domestic Nigerian economy with the inflation rate falling against the backdrop of a negative current account balance, and a rise in the general price of agricultural goods as headline inflation dipped between the end of Q1 and Q3 2021. The year 2021 was a roller coaster of the good, the bad, and the downright ugly. On the good side, headline inflation fell from slightly below 19% at the end of Q1 2021 to slightly over 15% by the end of the year. On the bad side, the country's current account balance stayed negative meaning that there were more external payments (outflows) than there were incomes (inflows) indicating a negative trade balance. The ugly part of 2021 was that the internal security situation worsened, resulting in agricultural supply chain disruptions. Rising insurgency in the country's Northern food belts led to logistic disruptions between farm gates and cities, thereby pushing up domestic food costs and worsening the national standard of living.

Analysts have equally observed that 2021 involved several moving parts. The removal of global lockdowns and the gradual resumption of economic activities saw the economy climb steadily from a ditch. GDP growth rose to 0.51% in Q1 2021, 5.01% in Q2 2021, and 4.03% in Q3, the year ended December 2021, according to estimates at between 2.4% and 3%. With no lockdown likely in 2022, real GDP could grow between 2.5% and 3.0% unaffected by base rate considerations, unlike in 2021, where faster relative growth was to some extent attributable to the slow growth rates in Q2 and Q3 2020.

The resurrection of a positive GDP growth rate suggests a rise in the domestic economic growth rate but with different rates across sectors. In this report, we give our outlook on sectoral growth rates and opportunities. The report also presents our review of the moving dynamics of the economy which presents both challenges and opportunities (*see illustration 1 below*).

> “
> ***In this Report we give our outlook on sectoral growth rates and opportunities.***
> ”

Illustration 1: ***The Nigerian Economy in 2021***



*Average real GDP growth figure is as of Q3 2021

Source: IMF, NBS, Proshare research

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Sectoral GDP Growth - Hills and Valleys

From the review, we were able to identify sectors that will grow faster than others in 2022. Faster growing sectors in 2022 would include:

- *Agriculture*
- *Financial Services (including Fintech and Insurance)*
- *Health Services*
- *Entertainment and Hospitality*
- *Information & Communication and*
- *Real Estate*

Agriculture will grow between 2.2% and 2.6% in 2022, driven mainly by the federal government and Central Bank of Nigeria (CBN) programs to raise domestic agricultural production of grains and livestock.

The financial services sector has done well regardless of challenges deposit money banks face (DMBs) in recent quarters with negative quarterly since Q4 2020. The industry fell by -2.48% in Q2 2021 and -0.46% in Q1 2021 but would likely see a reversal in 2022 as GDP rises and business activities pick up a few notches. The rise would be on the back of the strong industry growth of 23.23% in Q3 2021. The finance industry could rise by at least 15.2% and probably settle at 18.3% by the end of 2022.

With COVID-19 and its variants (from delta to omicron) taking a toll on global public health, the situation in Nigeria may become just as dire within the year if public sector action remains passive and unaggressive. Given the weak domestic public health management from COVID-19 to Malaria and onto Cholera, the healthcare sector would witness a rise in the demand for drugs and healthcare services in 2022. The industry would grow faster than the 4.2% in Q2 in 2021 and 4.9% in Q3 2021. The growth of the healthcare sector in 2022 would be between 5.2% and 5.7%, pushed mainly by heavier public expenditure and more significant private spending.

The COVID-induced lockdowns in 2020 hit the entertainment and hospitality sector hard, but this would change in 2022. The industry had already started to turn an impressive corner in 2021, with the sector growing by 1.22% in Q2 2021 and 3.68% in Q3. The industry will probably grow between 4.5% and 5.6% in 2022 if COVID-19 problems are managed and air travel and hospitality businesses are undisrupted.

The Information and Communication (ICT) sector has in contemporary times done well. While other sectors have had patchy performances over the last four quarters, the ICT sector has held up decently. The industry grew 6.47% in Q1 2021 to 5.55% in Q2 2021 and 9.66% in Q3 2021. The sector expects to grow between 12% and 13.5% in 2022, driven mainly by a rise in data usage. With domestic employment increasingly pivoting towards remote work, data usage would grow year-on-year (Y-o-Y) as corporate managers have to decide whether to operate by total remote work or adopt some hybrid form of work. The hybrid model appears increasingly favored in corporate Nigeria, as employers and employees have a middle ground between working from home (WFH) and the office (WFO) (*see illustration 2*).

While other sectors have had patchy performances over the last four quarters, the ICT sector has held up decently. The industry grew 6.47% in Q1 2021 to 5.55% in Q2 2021 and 9.66% in Q3 2021. The sector expects to grow between 12% and 13.5% in 2022, driven mainly by a rise in data usage. With domestic employment increasingly pivoting towards remote work, data usage would grow year-on-year (Y-o-Y) as corporate managers have to decide whether to operate by total remote work or adopt some hybrid form of work. The hybrid model appears increasingly favored in corporate Nigeria, as employers and employees have a middle ground between working from home (WFH) and the office (WFO) (*see illustration 2*).

***Illustration 2:* Real GDP By Sector**

SECTORAL REAL GDP GROWTH(%)
Q4 2020-Q3 2021

	Q4 2020	Q1 2021	Q2 2021	Q3 2021
Agriculture	3.42	2.2	1.3	1.22
Mining&Quarrying	-18.44	-2.19	-12.29	-10.56
Manufacturing	-1.51	3.4	3.49	4.29
Electricity, Gas Stream and air condition supply	-2.51	8.66	78.16	14.36
Water supply	1.92	14.75	18.48	12.97
Construction	1.21	1.42	3.7	4.1
Trade	-3.2	-2.34	22.49	11.9
Accomodation	-15.03	-4.6	19.07	2.09
Transportation & storage	-5.95	-21.89	76.81	20.61
Information &Communication	14.95	6.47	5.55	9.66
Arts, Entertainment & Recreation	-1.52	-1.13	1.22	3.68
Financial & Insurance	-3.63	–0.46	-2.48	23.23
Real estate	2.81	1.77	3.85	2.32
Professional	-5.43	–3.84	1.27	1.11
Administrative	-5.3	–0.77	4.79	3.36
Public Admin	1.8	-0.88	-1.68	-0.15
Education	-11.43	-6.2	0.63	1.37
Human Health	3.05	4.65	4.92	4.99
Other Services	-4.27	-2.95	0.64	0.73

Source: NBS, Proshare Research, Ecographics

Real Estate has seen a significant rise in both value and volume of properties as the economy edged out of the 2020 recession and saw modest growth in 2021. The sector grew by 3.85% in Q1 2021 and 2.32% in Q2 2021. Analysts expect the growth to increase between 2.8% and 3.2% in 2022 as pre-election years typically see sizeable public sector spending trickling into different sectors at different rates. The real estate sector has traditionally been a significant beneficiary in pre-election expenditures as investors with more considerable investible cash allot a portion to the properties market. Fitch, the global credit rating agency, sees the construction sector in Sub-Sahara Africa (SSA) growing by 5.4% in 2022, faster than the projected global economic growth rate. Of slightly over 4%.

The Global Economy in Changing Phases

The global economy in 2022 will ease into a sustained recovery despite the coronavirus pandemic having different effects and severity across the world. The global economy would grow by 4.1% (World Bank forecast) in 2022 against an estimated 5.5% in 2021. The slow economic growth rate influenced the global growth rate in 2021 in 2020, which was influenced by COVID-19-induced lockdowns.

The relatively slower global economic growth rates would lower worldwide consumption and spending. There will be restraints on economic growth for countries that depend heavily on primary products. Lower consumption and production in more complex economies would lead to lower supply chain product demand and lower prices.

The variants of COVID-19, such as the delta and omicron, may worsen global demand as lockdowns or partial lockdowns and restriction of labor movement across borders could see a reduction in production activities. Countries like Nigeria have witnessed a fall in their foreign remittances. Countries battling the COVID-19 pandemic will see lower economic activities and labor demand, resulting in lower income transfers by foreign workers. In 2021 estimated foreign remittances fell from US$22bn in 2019 to US$19bn, representing a -13.64% decline.

Global demand for goods and services will cool off in 2022. However, tech companies may still see strong demand from products that scale user interface and experiences (UI/UX) and facilitate better and more consumer-centric products. Open banking has increased finances in Africa and brought more people into the financial ***metaverse***.

Fintech companies in places like Nigeria have lowered barriers to capital flows by such activities as allowing retail investors a toehold into foreign equity markets by platforms like ***Bamboo*** and ***Chaka***.

Technology and Healthcare will dominate global conversations as the world tackles the coronavirus pandemic and other diseases (Lassa fever and Malaria in Nigeria) and rethinks work culture by cutting workdays and adopting hybrid work systems.

The Inflation

Riding on the back of a global growth slow down and rising global inflation rates resulting from earlier coronavirus-related quantitative easing will lead to central banks raising rates in 2022 to calm inflationary pressures. Snuffing out inflationary fires will mean global bond yields will rise as bond prices fall in 2022. Investors may wish to diversify their portfolios by late bird bonds at lower prices and higher yields. However, higher inflation and interest rates may crowd out private sector investments as corporates face higher finance costs and lower profit margins. The thinning of profit margins may lead to investors voting with their feet as they leave equities for higher potential returns in alternative investment outlets.

The Global Unemployment Quandary

The global unemployment rate has continued to rise since 2021, with the likelihood of a further rise in 2022. A lot depends on the COVID-19 pandemic and its disruptive impact on global supply chains. Unemployment rates may fall gradually over 2022, but this would depend on how governments contain the persisting pandemic and avoid lockdowns. Nigeria, for example, has already seen an improvement in its Purchase Managers Index (PMI) which was 56.4 (StanbicIBTC) in December 2021 (up from 55 in November 2021), and this indicates improvement in managers business expectations and levels of employment. Unemployment has recently declined in the United States of America (USA) and the United Kingdom (UK). Nevertheless, the declines are fragile as the tightness of monetary policy will heavily influence the economies as their central banks combat Inflation caused by the global liquidity glut and large fiscal deficits.

The fiscal deficits will persist over 2022, and governments will see the need to reel in their debts and reduce their spending. Combining these policies will involve public spending cuts which will slow growth and perhaps increase unemployment. In other words, unemployment may decline but at a falling rate depending on how severely the government cuts its spending.

When Oil Price Matters

Worries about government spending cuts will be chased by problems of a persistent rise in international oil and gas prices in 2022. Oil prices will reflect a rise in demand as economies recover from their slow growth rates between 2020 and 2021. Many global economies saw base rate adjustments in 2021 as they grew faster because of the historically low growth rates of 2020. Those effects are gone in 2022, so many countries will see slower growth rates than in 2021, and with oil prices likely to stay above US$75 per barrel, growth brakes may apply harder than most analysts' earlier expectations.

The international oil market will be a significant influencer of domestic price increases and economic growth in the year; the odds are that the rise in demand and supply challenges across oil-producing countries will cause broad revisions in global growth projections for 2022.

Assessing Possibilities, the Local Economy in 2022

Nigeria's domestic economy will reveal a bag of uncertain outcomes resulting from the local economy's primary commodity structure and monetary and fiscal policy options available to the federal government in a pre-election year.

The fact that Nigeria's main export product (crude oil) price and quantity is determined within an oligopolistic cartel (the Organisation of Petroleum Exporting Countries (OPEC)) means that Nigeria cannot cut its oil prices to increase sales and generate higher revenue. The quota caps placed on member OPEC countries leave their revenues vulnerable to price swings that occur from time to time.

A rise in oil prices increases revenues, and a fall in prices decreases the national income of oil exporters; in recent months, the price movement has been majorly affected by the increase or decrease in the growth and demand of Asian economies. The campaign has also leaned towards cleaner non-fossil energy sources such as wind, water, and solar power.

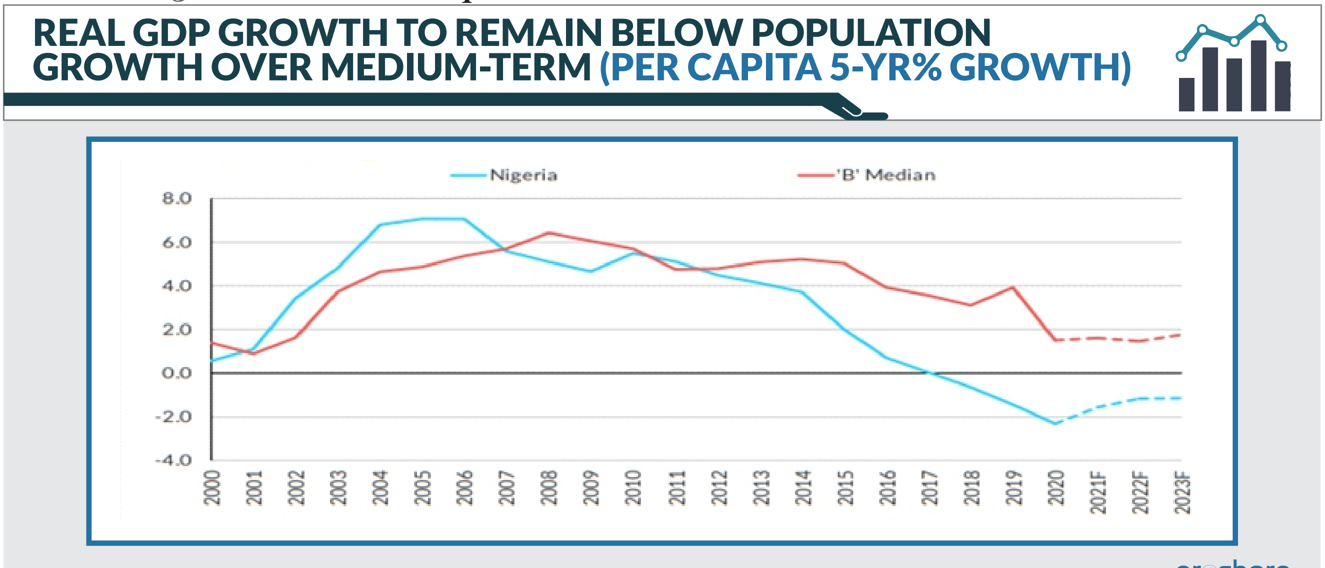
Analysts predict that the demand for fossil fuel will remain strong over the decade, with demand tapering off significantly by 2030 and 2031. In 2022 Nigeria should be able to export at least 1.6m barrels per day of crude oil at an average price of US$75 per barrel. The recent 2022 budget rests on US$62 per barrel, leaving a significant potential accretion to the Excess Crude Account (ECA) and foreign reserves. An increase in foreign revenues should reduce 2022's budget deficit, improve the country's debt service to revenue ratio (76% as of November 2021), and provide more substantial fiscal buffers for capital expenditure and growth. The country's gross domestic product (GDP) may grow faster than analysts' recent consensus average forecast of 2.5%.

GDP in A Nutmeg

The country's GDP would likely grow at 3.2% in 2022, which would be modest compared to the global GDP growth of 4.1% in the same year, but it would be better than the 0.51% at the end of 2020. GDP growth for 2021 would settle at 4.06%, given the base rate effect of negative growth in Q2 and Q3 of 2020 and the modest 0.11% growth in Q4 2020. The slower projected GDP growth rate for 2022 would occur within a relatively high inflationary environment (recent Inflation was 15.06% in December 2021). The slow projected growth would reflect a negative real GDP growth below the country's population rate, meaning lower real GDP per person and frailer retail spending in the year.

The slower growth of GDP in 2022 would indicate a modest increase in the various other sectors of the economy except for technology, agriculture, and ICT. The fast-moving consumer goods (FMCGs) sector would see lukewarm expansion (*see illustration 3 below*).

Illustration 3: ***Real GDP & Per Capita Growth***



Source: Fitch Ratings, Proshare Research.

Inflation: Cooling the Rage of a Monster

The country has had to deal with a high inflationary environment since 2016. In 2021 the Inflation rate continued to its upward glide until a reversal happened in Q2, 2021 which saw the inflation rate tumble from 18.17% in March 2021 to 16.63% in September 2021. The decline in Inflation is expected to continue for most of 2022 as the Central Bank of Nigeria raises its policy rate from 11.5% to 12.5% by Q2 or it reduces the banks' cash reserve ratio (CRR) from 27.5% to between 25.5 and 26.5% as credit expansion increases output. A lower CRR would increase bank liquidity, reduce interest rates and lower company finance costs, and probably product prices. Cooling the inflation rate would encourage higher domestic savings and investments and raise the GDP growth rate and employment (*see illustration 4*). ***A lower CRR would be more effective in stimulating economic growth in 2022 than the raft of monetary interventions in 2021.***

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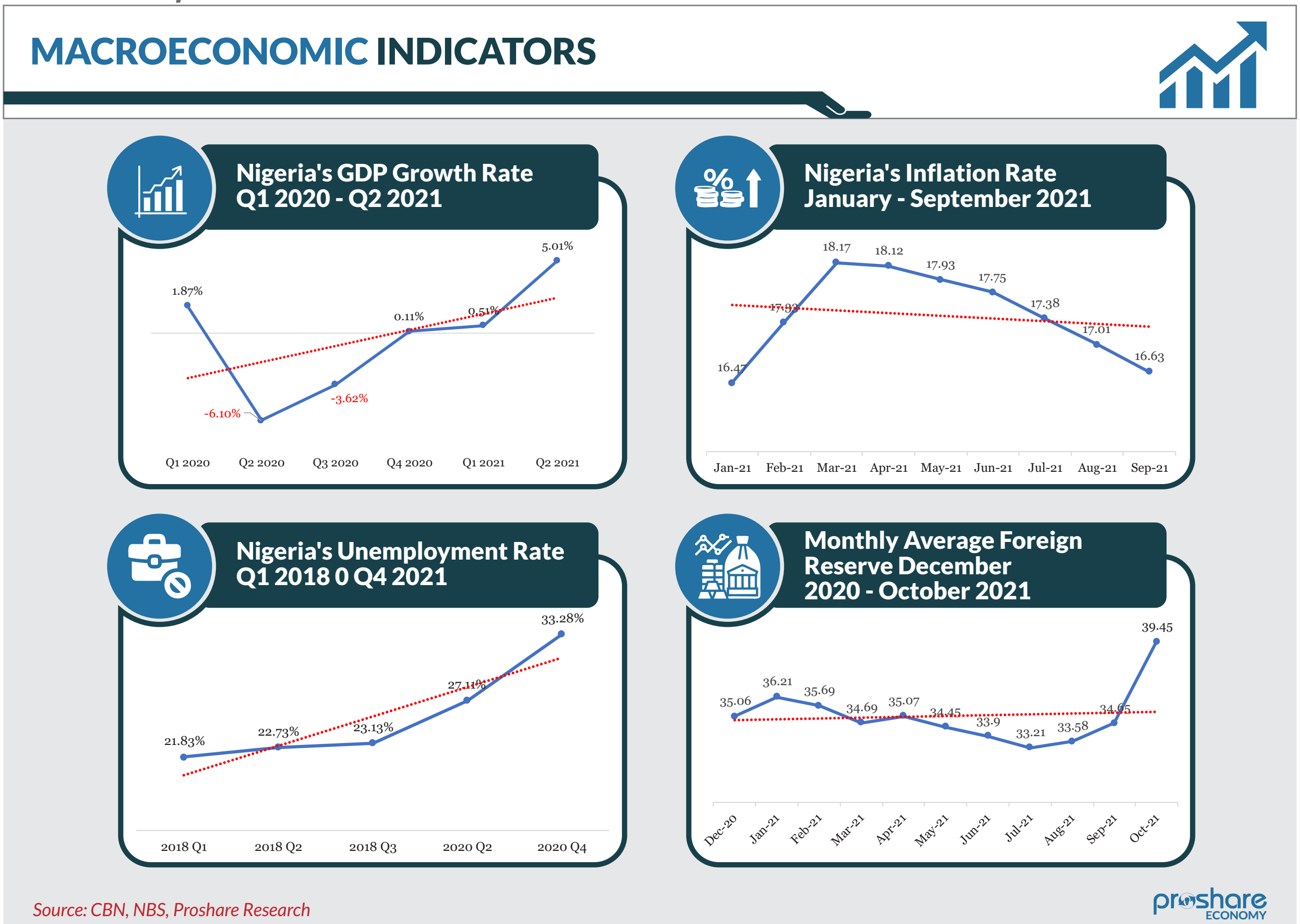
*Illustration 4: **Macroeconomic Indicators***



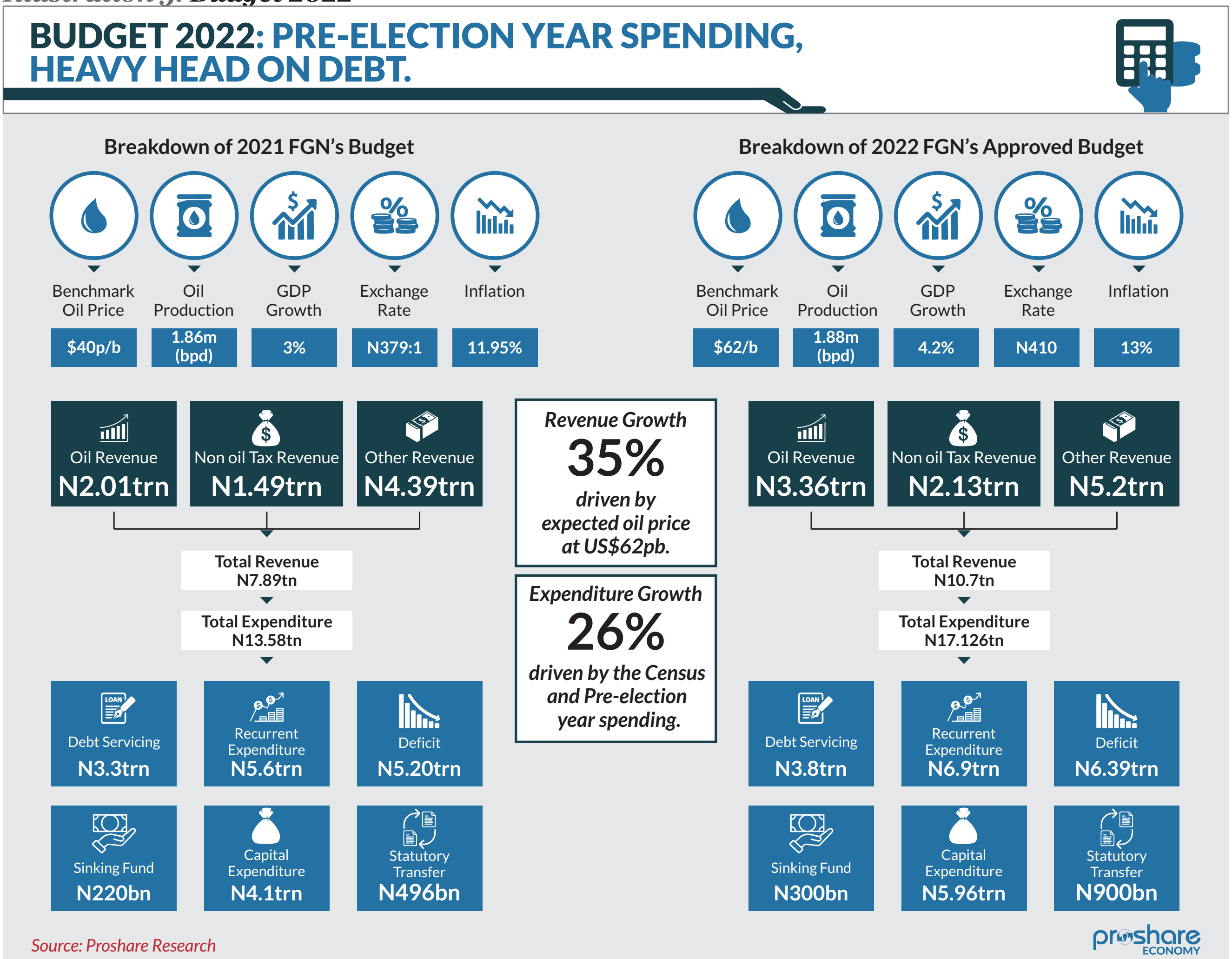
Interest Rate's Higher Tone

Interest rates will rise in Nigeria as the federal government attempts to curb Inflation in 2022. Tight monetary policy will result in a rise in domestic interest rates and a higher inflation rate after subsidy removal and the upward review of energy prices; the inflationary knock-on effects would need monetary policy intervention. Unfortunately, weak fiscal policy capacity could upend the ability of the economy to grow GDP in a non-inflationary manner. The poor fiscal and monetary policy alignment places policymakers in a perfect storm. Typically, governments cut taxes at times of slow economic growth, but in 2022 the greater likelihood is that taxes would rise, and the federal fiscal tax net would expand. The proposed upwardly revised tax on carbonated drinks indicates the new tax approach for the year as the federal government tries to plug the fiscal revenue gap.

Rethinking Public Debt

Nigeria's public debt book has soared in the last five years. Total debt has risen from N17.36trn in 2016 to N32.92trn in 2020, representing a compound annual growth rate of 17.43%. Nigeria's debt service obligations have been increased from N353bn in 2016 to N1.56trn in 2020. Analysts appear divided on the sustainability of the N38trn federal fiscal debt position in 9months 2021. One school insisted that with a debt to revenue ratio of 76.2% as of November 2021, Nigeria was staring down the barrel of a debt crisis; the other school insists that at a debt to gross domestic product (GDP) ratio of less than 40% Nigeria's debt position was manageable. The more convincing school is the hawkish school which believes that debt-to-revenue was a more critical metric than debt-to-GDP. (*see illustration 5 below*).

Illustration 5: ***Budget 2022***



Nevertheless, both schools ignore what may be critical to fiscal sustainability, which is the resolution of the debt-to-revenue or debt-to-GDP debate. A better approach to looking at the debt situation is to adopt a balance sheet rather than an income statement approach. The result would be that debt would be measured against income-earning assets.

The new thinking is that Nigeria has piles of assets that do not generate revenue and are considered 'dead.' These assets could add to revenue streams to lower the current high debt service to income ratio if revived. The Nigerian government seems to be slowly buying into this idea by increasing the number of concessions it approves across different economic sectors; it has started with non-oil mining concessions and new telecommunications licensing (5G networks).

By reducing the government's cash outflows (an income statement activity) and increasing asset concessions (a balance sheet cash inflow activity), the fiscal balance would improve quickly as projects would be funded by private capital rather than public sector debt (suggesting project and venture finance opportunities in 2022). Adopting this approach would increasingly reduce the crowding-out effect of government bond and bill issues on private credit to the domestic capital and money markets. As far as 2022 goes, interest rates and inflation will remain high as the fiscal policy managers struggle to tackle the growing debt bulge.

The new year should see a rise in venture and private equity capital as rising local interest rates and double-digit Inflation encourage enterprises to look for alternative financing.

Crude Uncertainty

The global crude oil market has been in flux since 2020. Oil price uncertainty and supply challenges have left fiscal projections in tatters. Nigeria has had to cope with significant price variability riding the back of volume shortfalls. Nigeria presently produces 1.6m barrels of crude oil per day as against the budget expectation of 1.86m barrels per day in 2021 and 1.88m barrels per day in 2022. Few analysts expect Nigeria to meet its target, but they are optimistic that it will sustain a 1.6m barrels per day production output in 2022. If oil prices stay above US$62 per barrel during the year, the government will meet its 2022 budget revenue expectations with minimal, if any, fiscal disruption.

However, trouble between Russia and western economies over gas pricing and supply and rising tension over the possibility of a Russian invasion of Ukraine in the year could lead to a global anxiety factor being priced into oil and gas prices. Despite these concerns, Saudi Arabia and other principal OPEC members have said they would not want to see oil prices tip over the US$100 per barrel mark. Indeed, the largest oil producers would likely head off the rise before it gets close to the US$100 per barrel resistance threshold. Higher oil prices mean higher domestic subsidy in Nigeria, with the federal administration insisting that it could no longer bear the massive cost of domestic subsidy based on its high and rising debt service burden and lean revenues, the possibility of gradual removal of what the government has called petroleum 'under-recovery costs' would seem inevitable.

The cutting of petroleum subsidies would translate to a rise in domestic logistic costs. Still, it may not lead to a massive knock-on rise in food and other prices. The agriculture sector typically uses price-deregulated diesel or automotive gas oil (AGO) for transportation rather than regulated premium motor spirit (PMS).

Will domestic prices rise in 2022? Indeed, they will. However, the extent of the rise may not be as frightful as first thought. Domestic PMS price in 2022 may rise from N165 per litre at the beginning of the year to N345 per litre in Q2 2022. Domestic oil marketers would likely see a notable rise in revenue from Q2 2020 as PMS price rises from the second quarter of the year.

The Currency Ballroom 2022

Nigeria's foreign exchange market will remain a big economic elephant in 2022. Like previous years, events in the market will have a direct bearing on the domestic inflation rate, manufacturers' resource allocation, and overall industrial output.

If the international oil market holds up demand, then product price would be strong enough to ensure that public revenue stays ahead of budget expectation, and foreign reserves would witness modest growth in 2022. However, suppose Nigeria's oil production volumes drop off (the budget 2022 expectation is 1.88mbd)? In that case, foreign exchange reserves could become depleted. The foreign exchange rate would rise as the naira loses value in international currency markets, and increased pressure would be put on domestic prices causing higher domestic inflation.

The etiquettes of the currency ballroom in 2022 will be irrelevant where the elegance of a ballerina would not count for much in a street dance clash. With global economies battling historic rates of inflation and domestic interest rates rising, the flow of foreign direct investment (FDI) to emerging economies, like Nigeria, will crumble. The CBN has said that the Nigerian economy does not catch a cold when the global economy sneezes, this may not be true for 2022. As foreign interest rates raise the opportunity cost of investing in Nigeria will steepen and rational investors will reallocate funds (*see illustration 6 below*).

***Illustration 6:* Naira and Other African Currencies**

HOW THE NAIRA FAIRED COMPARED TO OTHER AFRICAN CURRENCIES

Country		Inflation	Currency ($; 2018)	Currency ($; 2020)	Currency ($; 2021)	% Change (2018/2021)	% Change (2020/2021)
Angola		26.98	307.06	649.60	561.32	-82.80	+13.59
Nigeria		15.40	363	470	566	-55.92	-20.43
Ghana		12.2	4.80	5.80	6.05	-26.04	-3.60
South Af		5.5	14.35	14.69	15.96	-11.22	-8.65

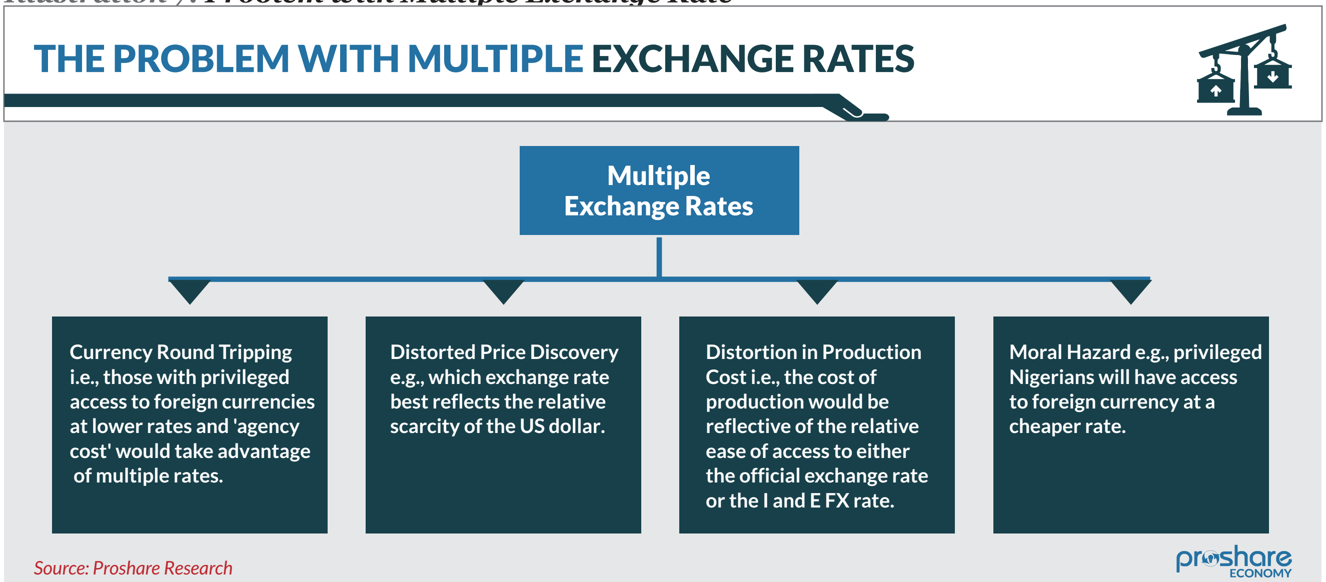
- *Most African currencies depreciated in the last 3 years.*
- *The Angolan Kwanza and Nigerian Naira depreciated the most.*
- *Both are oil dependent economies.*

Source: FDC, Proshare Research

A further problem with the naira is that the country's managed multiple exchange rate regime could hurt foreign direct investment (FDI) and encourage market abuse through roundtripping (*see illustration 7*).

> ***"The CBN has said that the Nigerian economy does not catch cold when the global economy sneezes, this may not be true for 2022."***

***Illustration 7:* Problem with Multiple Exchange Rate**

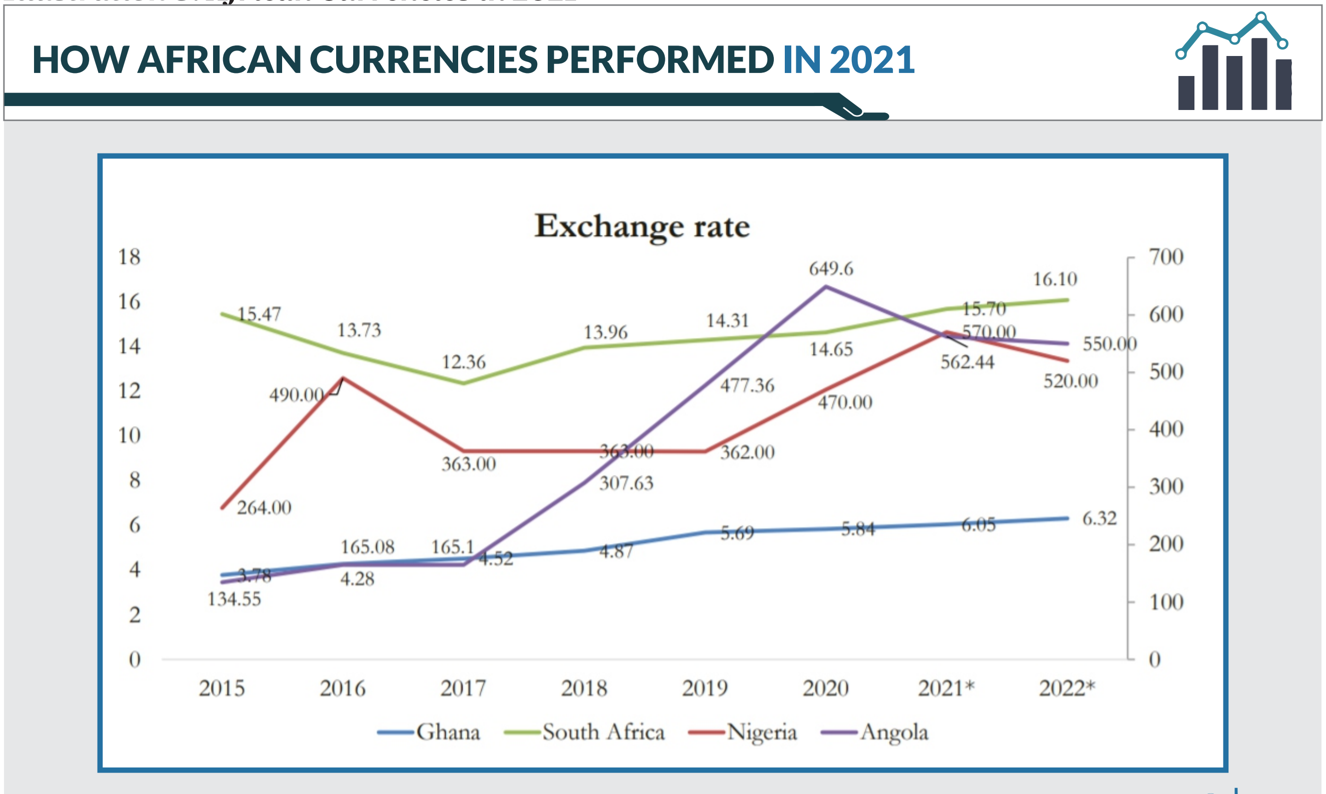


One option to correct the problem would be to allow the naira to depreciate by a 'dirty' or mildly managed float. Economists believe that with the naira depreciating, imports would become more expensive and exports cheaper, thereby encouraging a gradual elimination of the spread between official sources of foreign exchange (FX) and a parallel black market. Contrarians are unconvinced and believe that a naira float would not narrow the difference between the official rate and the parallel market rate. They insist that the black-market rates rise each time the official rates rise, resulting in the classical case of a dog chasing its tail.

Therefore, a second option would be to set a strictly managed float with a sunset clause and impose a date by which the 20% of local imports responsible for 80% of FX use are scaled down to at most 20% of FX demand. For example, if the Dangote refinery comes on stream by Q4 2022, then expenditure on refined oil products can be eliminated with the attendant fall in the pressure on the Naira in FX markets. After the sunset date, a flexible float could be allowed with the new float regime nudging convergence of the various domestic exchange rates (*see illustration 8*).

*"**One option to correct the problem would be to allow the naira to depreciate by a 'dirty' or mildly managed float.**"*

Illustration 8: African Currencies in 2021



Source: FDC, Proshare Research

The strengthening or weakening of the naira in 2022 will largely be determined by oil revenues and various political and economic factors that will influence the international oil market's volumes and prices in the months ahead.

Treasury Bills and the Fiscal Burden

Treasury Bill rates will rise as bond prices fall in the year. The rise in Treasury yields will mirror domestic interest rates as the Central Bank of Nigeria (CBN) curtails rising domestic Inflation propelled by higher domestic fuel prices and energy costs and higher domestic interest rates in 2022. The CBN is likely to raise the monetary policy rate (MPR) but reduce the banks' cash reserve ratio (CRR) from 27.5% to 25 % and 26%.

The fiscal authorities may be less active in the domestic and foreign debt markets in 2022 than in 2021 as they tighten liquidity to keep Inflation in check and reduce the fiscal debt service burden.

Inside the 2022 Money Market

As debt becomes an issue of careful management against the backdrop of widening anxiety over the country's N38trn third party obligations, the domestic money market will be liquidity constrained, The fiscal authorities have depended heavily on Ways and Means expenditure (CBN borrowings) far more than the statutory and legal maximum, and this could pose a major problem in 2022 as the Central Bank runs out of monetary roadway.

The government's financial exposure to the CBN would be converted to tradeable securities. The result would be a further rise in domestic money market rates and a crowding out of private-sector borrowers. Both interbank and open buyback (OBB) rates would rise in the year.

The Security Bogey

The broad outlook for the Nigerian economy depends heavily on the state of national security, the reestablishment of peace in Nigeria's agricultural belt in the North Central parts of the country, and the containment of insurgency in the South East and South-South.

The disruption of economic activities in the oil-producing South East and South-South and kidnappings and religious rebellion in the North East and North West could eliminate the steady-state assumptions upon which the basis of the multiple regression stepwise Keynesian econometric analysis.

The state of domestic security and the government's effectiveness in dealing with this variable will be critical to sustainable GDP growth in 2022.

Heads Bent into Stormy winds- A Look at 2022

The main COVID-19-induced headwinds of 2020 appear to have stopped. Economies have gradually got their groove back, and analysts expect to see faster-paced growth in 2022. Unfortunately, due to excessive liquidity created in 2021 as governments fought for domestic recessions, global inflation rates have scampered up, leaving governments with the choice of raising interest rates that could reverse or at least slow the growth of global GDP.

With global economic recovery accompanied by rising oil demand and ballooning crude oil prices, Nigeria's nominal export earnings should increase in 2022. However, the non-oil sector may suffer misfortune due to banditry, kidnappings, and insurgency, hurting agricultural and industrial output. Nigeria's GDP would grow between 3.0% and 3.5% in 2022 as GDP rebounds to pre-pandemic levels. As the growing population growth rate remains unrestrained at around 3% per annum, per capita GDP would decline.

The base effect, which accounted for the previous fall in Inflation in 2021, would ease in 2022, as rising gas and imported food prices keep Inflation double-digit. In the absence of a re-emergence of the Coronavirus pandemic, the nation's Current Account deficit would fall marginally as oil prices rise.

Against this background, the Fiscal authority needs to prioritize the country's human capital development by investing in the Healthcare and education sector. However, significant income mobilization will be required in the medium to long term to minimize budgetary sustainability risks caused by rising debt to revenue ratios. With low per capita income, revenue mobilization will need to rely on a broader tax base and a rise in marginal tax rates as the government struggles to balance its books.

Indeed, a few analysts believe that Nigeria may see new tax credits to companies ready to construct roads and other infrastructure to reduce direct public spending on infrastructure (BUA Cement was in January 2022 approved for tax credits, following the example of Dangote Cement and Nigeria Flour Mills in Q2 2021). Economists have argued that strategies such as Asset-securitization and non-interest-yielding debts could also be used to reduce the government's debt service cost.

The idea of an Infrastructure company adopting a private-public partnership (PPP) approach equally remains on the table; however, to attract foreign investment, a more transparent and market-based exchange rate policy is required. Analysts have suggested developing a market-clearing uniform exchange rate. However, the CBN's 'managed float' policy may need to have a short shelf-life as domestic inflationary pressures persist and the government figures out how to financialize dead public assets.

Section 1 of the report takes a helicopter view of global and continental macroeconomic developments and paints a new portrait of outcomes of global macroeconomic data in 2022. The section compared pre-pandemic levels of international trade with more recent numbers and patterns. While physical trade in goods may decline in 2022 and beyond, international trade in knowledge and services would rise, and globalization in human capital would grow faster.

The report looks at the dampening effect of the Delta and Omicron strains of COVID-19 on global economic growth over the last twelve months. The section reviews the resulting Supply chain bottlenecks, which supported global Inflation to record highs. It also assesses the decision of monetary authorities to lower benchmark rates and the pivot of businesses globally to the Just-in-Case production technique as an alternative to the Just-in-Time approach. This section also examines important trends and outcomes in global trade during 2021, from Brexit to the Sino-Aussie-US war.

Section 2 looks at the macroeconomic indicators and scrubs the data for unique trends that have defined the outcomes of Nigerian businesses over the period. The report drives through the performance of the different sectors of the Nigerian economy, highlighting the industries that recorded the best performances. It also analyses the volume of capital importation and the structure of foreign trade in the period, making comparisons with the arrangement in previous periods.

Section 3 involves a dive into the plight of the average Nigerian Household in the face of lower purchasing power and high unemployment, which have pushed many into poverty. This section looks at how Nigerians have adopted migration as a survival strategy while also assessing the means through which a 'Brain Gain' can be made out of the "Brain Drain" primarily through the development of human capital.

Section 4 looks at the government's fiscal operations in 2021 and then evaluates the impact of the Monetary policy stance of the Central Bank of Nigeria over the period. A survey of the Bank's various interventions is undertaken. In this section, the 2022 Budget comes under sharp focus, being the last of the administration and the budget for a pre-election year.

Section 5: appraises significant global fixed-income market activities in 2021. It also scans the domestic fixed income market, highlighting the developments in the primary and secondary sections of FMDQ, the country's principle Fixed Income securities exchange. The report zeros in on the Eurobond issuances by the Federal Government and the private sector issuances over the period.

Section 6: looks at the performance of the global equities market in 2021, focusing on the major indexes like the DOW, S&P 500 and the HANSENG. It gives an overview of the highlights and lowlights for the Nigerian Stock Exchange (NGX) while identifying the most vibrant sectors in 2021.

Section 7: considers the significant developments that shaped the demand and supply of oil and gas in the international market in 2021. It assesses the impact of the Hurricanes Ida and Nicholas and the newly discovered Omicron variant of covid-19. It also features the global gas shortage in 2021 and its impact on global gas prices. On the domestic scene, the impact of the passage of the Petroleum Industry Act on activities in the oil and gas sector is examined. The Financial performance of TotalEnergies Marketing Nigeria Plc is taken as a case study.

Section 8: reviews the commodities market in 2021. It looks at the major factors which determined the returns on hard and soft commodities over the period. It provides an insight into important policy actions taken by the government in

Section 9: wraps up the major events in the crypto market and tech space in 2021 It presents an analysis of the returns on the top cryptos by market cap and sums up the major events that occurred in the global and domestic technology space.

The final section of the report, Section 10, gives an outlook for 2022. It takes a shot at outlining the various drivers that form the basis of our Analysts' outlook for 2022.

"The Financial performance of TotalEnergies Marketing Nigeria Plc is taken as a case study."

Introduction: From Delta to Omicron- Betting on a Bug

The new year 2021 began on a promising note, with cautious expectations of a decent economic recovery. The Global Economy had suffered a -4.3% economic contraction in 2020 when global crude and liquid fuels production fell to 94.25 million barrels per day (mbpd). The effect of the covid 19 pandemic buffeted the global Economy so much so that global crude oil prices fell as low as US$54/b in January. However, out of sheer optimism about vaccine development efforts, the International Monetary Fund (IMF) in its January 2021 World Economic Outlook (WEO), still expected the global economy to expand by +5.8% in 2021, before tapering to +4.2% in 2022.

This optimism was riveted to the expected relaxation of social distancing rules as well as additional policy support in major economies. Analysts at JP Morgan gave a similar outlook, foreseeing stabilization and a reversal of supply chain disruptions occasioned by the pandemic. In their forecast, the team at JP Morgan expected a volatile but positive global growth supported by accommodative monetary and fiscal policy. In their view, a +5.8% global growth in 2021 was to be anchored on the roll-out of vaccines which was meant to peak as 2021 closed. Of the world's largest economies, China was expected to expand fastest by 9.2% while the US was expected to see a 5.5% growth.

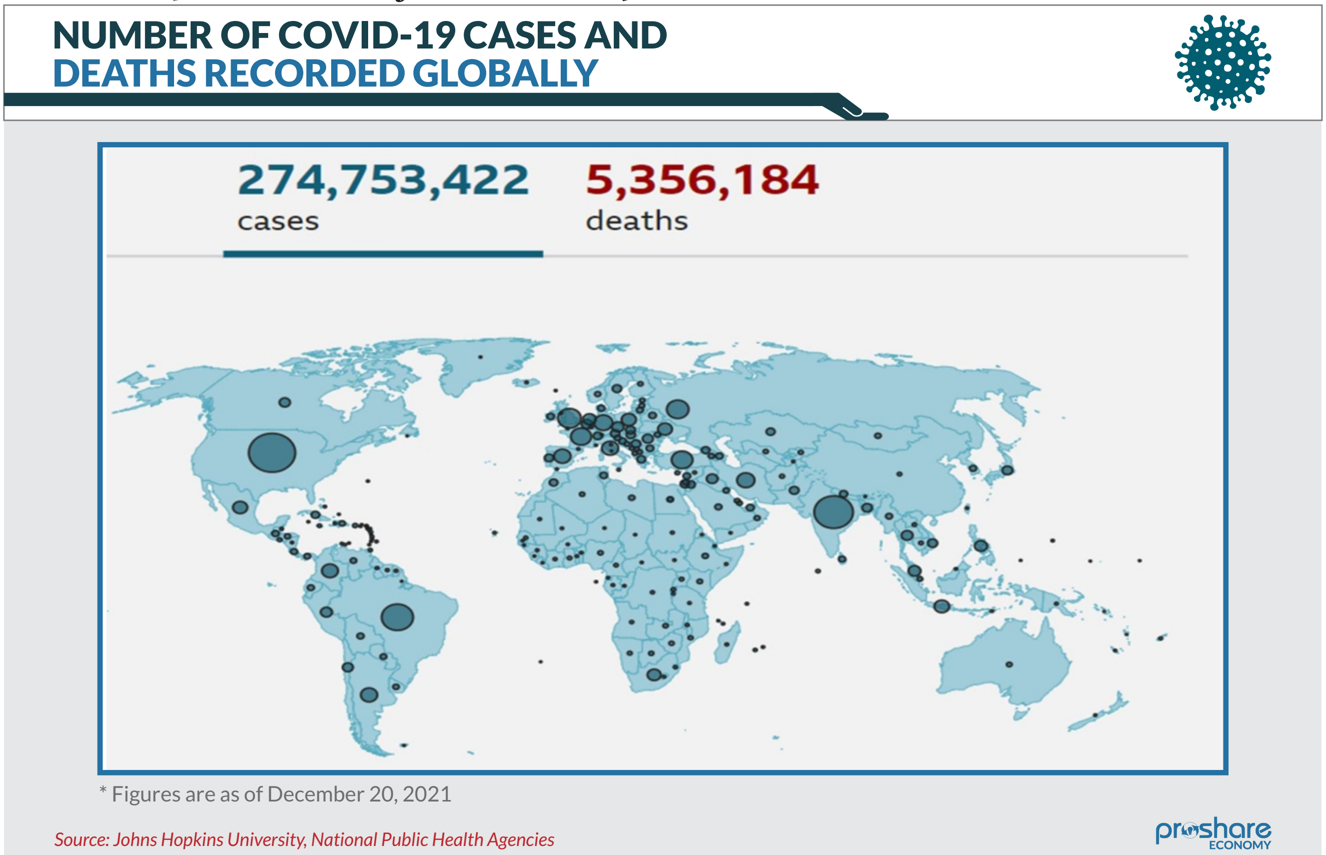
Early positive signs of progress in vaccine development were read into the World Health Organisation's (WHO) declaration that COVAX had, at the beginning of the year, signed an agreement with Pfizer/BioNTech for the provision of up to 40 million doses of its vaccine with a plan to deliver 2bn doses by year-end. This agreement was also supposed to see countries willing to share doses donate.

Despite slow-downs occasioned by the delta strand of the virus which was first discovered in India in January (and which by July, had been detected in a total of 104 countries) the global economy according to the IMF grew by 5.6% in 2021—the strongest post-recession performance. Nonetheless, the upturn was highly uneven and characterized by substantial uncertainty.

The discovery of the omicron variant of the covid 19 infection introduced complexities into permutations for growth in the first two quarters of 2022. While Medical researchers at the University of Oxford as well as WHO officials express optimism about the possible efficiency of vaccines against the new strain of the virus, Moderna affirms that the vaccines are of much more reduced protection against the virus. Amidst the uncertainty, travel restrictions were imposed by Canada, and 29 other countries, stoking fears that activities could slow again, and Crude Oil prices would drop.

As expected, prices did tumble to below the US$70/b in the first week of December but soon recovered. In a “Weakening Recovery” outlook in 2022, the global economy slows in response to another COVID-19 outbreak, worsening the shipping network problems, mounting inflationary pressures, and causing a sharp tightening of global financial conditions during the next two years. In contrast, in a “Consolidated Expansion” outlook, vaccine-driven COVID-19 containment, re-opening, and ambitious reforms supports larger economic activities and trade, with positive implications for the Global Economy. As of December 20, a total of 274,753,422 cases and over 5 million deaths have been recorded globally, but North America, Western Europe, some parts of South America, and South East Asia have been the most hard-hit (*see illustration 9*).

Illustration 9: ***Distribution of Global Covid-19 cases***



Global Inflation: 'The Ruinous Cost of Economic Recovery',

In a bid to shorten the term of the 2020 global recession occasioned by the devastating public health crisis, governments all around the globe responded to the depressing impact of covid 19 on aggregate demand, with large-scale government spending, a move which made the 2020 recession one of the shortest in the world's history. Recessions the like of which the world experienced in 2020, are usually accompanied by an initial decline in the general price level.

However, as the Economy reopened in 2021 under the influence of accommodative monetary and fiscal policy, inflation rocketed. According to the world bank, the decline in inflation during the 2020 global recession was the most gentle and shortest of any of the five global recessions experienced in the last 50 years. In other words, a natural consequence of the swift exit from recession had to be a highly inflationary environment.

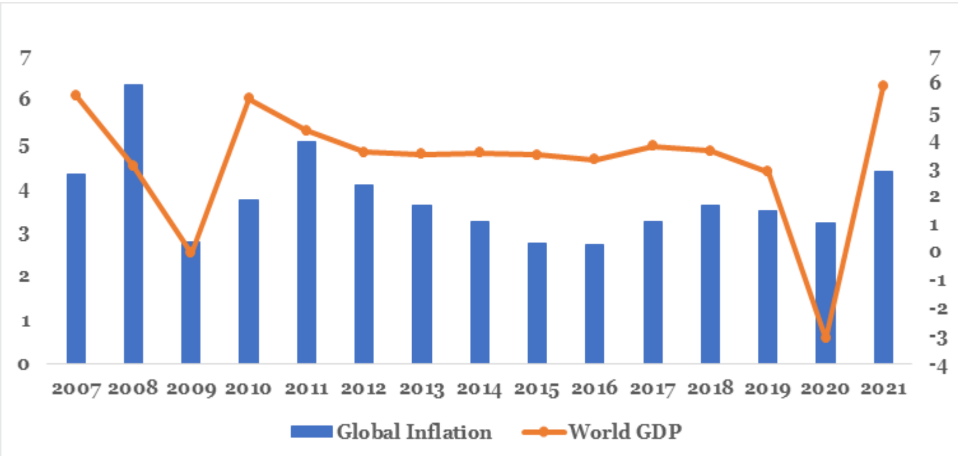
In the US for instance, with as many as 700,000 people filing for unemployment benefits in March 2021, the Biden Administration saw the need to launch a US$1.9tr Covid 19 fiscal stimulus which was meant to see eligible recipients receive up to US$1400. At the same time, the Federal reserve cut short term rates to quarter of a percentage while restarting its large-scale asset purchase programme through which it bought US$80 bn of Treasury securities and US$40 bn of agency mortgage-backed securities each month. Seeing the potential impact of these interventions, Goldman Sachs raised the US 2021 economic outlook to +6.4% while Morgan Stanley upwardly reviewed the forecasted growth to +5.9%. By January 2021 the number of jobs lost on account of the pandemic was down to 9.8m jobs.

By May, new applications for jobless claims had eased to 400,000 although US Inflation had risen to 5.4% a 13 year high in June 2021, raising concerns amongst analysts who bemoaned the ruinous cost of the recovery. All along, both US Treasury Secretary and the Fed Chairman maintained that the inflationary trend was transient.

According to analysts, energy prices particularly fed into the overall rise in the price level in the US. According to the U.S Energy Information Administration (EIA) gasoline averaged US$2.85 per gallon as of the end of March responding principally to higher crude oil prices which were beginning to approach US$70. The rise in the utility was also associated with refining costs, retail distribution, marketing costs as well as taxes.

US Inflation continued to rise in the second half of the year with inflation remaining at around 5.3% between June and September. By October, US inflation had rocketed to a 30 year high, 6.2%, due to surging food, gas and housing prices. Inflation further worsened in the following month, as the Bureau of Labor Statistics announced that inflation had reached 6.8%- a 39-year high (*see chart 1 below*).

Chart 1: Global GDP growth and Inflation (%)



Source: IMF, Proshare Research

The FOMC had weeks prior, announced its decision to dial back the US$120bn asset purchase program by US$15bn, subsequently, it decided to taper even faster, toning down asset purchase by an additional US$30bn progressively each month till the program is wound down in March 2022 setting the tone for three 0.25% rate hikes in 2022.

Similar scenarios played out in other advanced as well as emerging and developing economies. For instance, in the UK, to support the recovery of the Economy from the pandemic interest rates were reduced to 0.1% while undertaking a quantitative easing program to the tune of £895bn. As a result, between June 2020 and the corresponding period of 2021, general price levels rose by 2.5% - 50 basis points more than the 2% target of the Bank of England. Like in the US, UK monetary authorities initially believed that soaring inflation was due to the short-term difficulties which businesses experienced in meeting the huge pent-up demand. In reality, the inflationary environment was occasioned by a combination of factors, originally pent-up demand, subsequently the shortage of inputs, the longer shipping time, a disruptive gas shortage Tr (*see illustration 10*)

Illustration 10: ***Factors driving global Inflation***

Similar to the ***'Great Resignation'*** observed in the US, concerns about the Covid-19 infection caused some workers to want out of their jobs. Also, in the aftermath of the Brexit, many truck drivers decided to return to their home countries causing fuel scarcity in October. At this time, UK Inflation further spiked to 3.8% mounting pressure on the Andrew Bailey chaired BoE MPC to raise rates. This would however not happen until inflation reached 4.6%- a ten-year high in November.

After a final meeting in December, the BoE MPC agreed to raise rates to a quarter of a percentage from 0.1%.

The Chinese Economy in its case defied the trend, as its recovery did not seem to be accompanied by the kind of price pressures observed in other major economies. The world's second-largest economy grew by +12.7% in the first half of the year, after it had leaped by a massive +18.3% in the first quarter and later on expanded Y-o-Y by +7.9% in Q2 2021. In January 2021, despite the growth witnessed, the country saw a -0.3% annualized reduction in the CPI, while February inflation data also came in negative at -0.2% indicating low price pressures. As the year approached the halfway mark, commodity prices picked up and Chinese inflation rose to 1.3% in May 2021, before moderating to 1.1% in June.

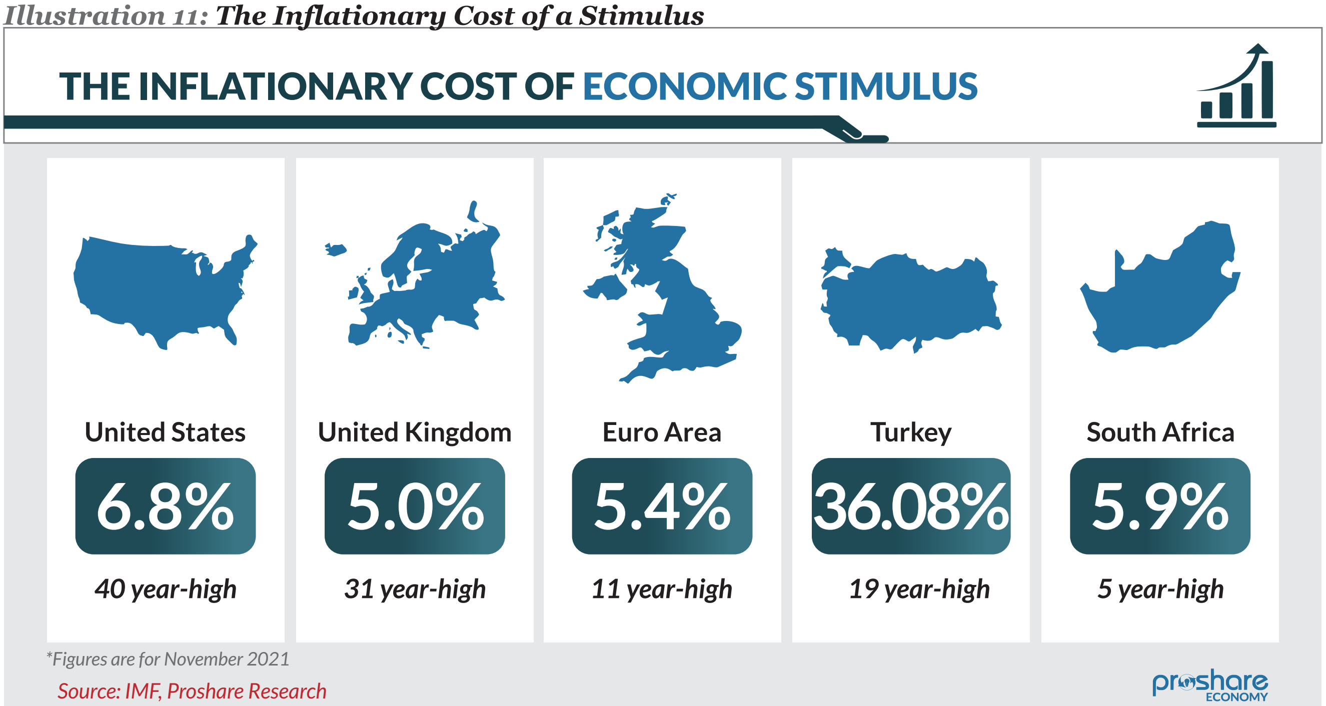
An assortment of factors such as energy shortage, a surge in covid 19 infection rates, and a fairly low base in food prices, ensured that Inflation rose in China to 2.3% in November, the highest in more than one year. Chinese monetary authority seemed to be reverting to a dovish stance by cutting the RRR by 50bp. This comes after adopting monetary tightening policies to mitigate the financial system risks occasioned by property developers-Evergrande and Fantasia. Apart from concerns about Capital reversals, China's producer prices have grown more than 10% (far higher than the 2.3% CPI growth rate) indicating higher expected inflation.

Growth was sluggish in the EU for most of the first half of the year, the first quarter had seen a -0.1% contraction in the GDP of the EU economy, after which a 1.9% growth was recorded in the second quarter. In France for instance, the inflation rate jumped in August to 2.4%, the highest in three years, although the Bank of France like the US and the UK consider the rise in inflation transitory devoid of overheating risk. In Italy, the pace of price growth reached 2.6%, the fastest since 2012

Meanwhile, Germany's annual consumer price inflation accelerated to a fresh 13-year high in August. Underlining growing price pressures consistent with the recovery of Europe's largest economy due to supply shortages. The national inflation rate (CPI) even soared to 3.9% in August, the highest since December 1993 when the Economy boomed following German reunification. According to analysts, inflationary pressures are attributable to higher energy and food prices since core inflation fell slightly from 2.9% to 2.8%. Economists are of the view that the inflation rate would rise further in the new year, pointing to special factors and base effects from a temporary reduction in VAT rates in the second half of 2020 that affected comparisons.

As the EU's price growth rose to 5.2% in November and 4.4% in October (up from 2.3% in May and 2.2% in June) while over-running the 2% medium-term target) the ECB is expected to announce the tapering of its 1.85tr Euro (US$2.09 tr) Pandemic Emergency Purchase Programme (PEPP) first-quarter 2022 before ramping the same up by the end of March (*see illustration 11 below*).

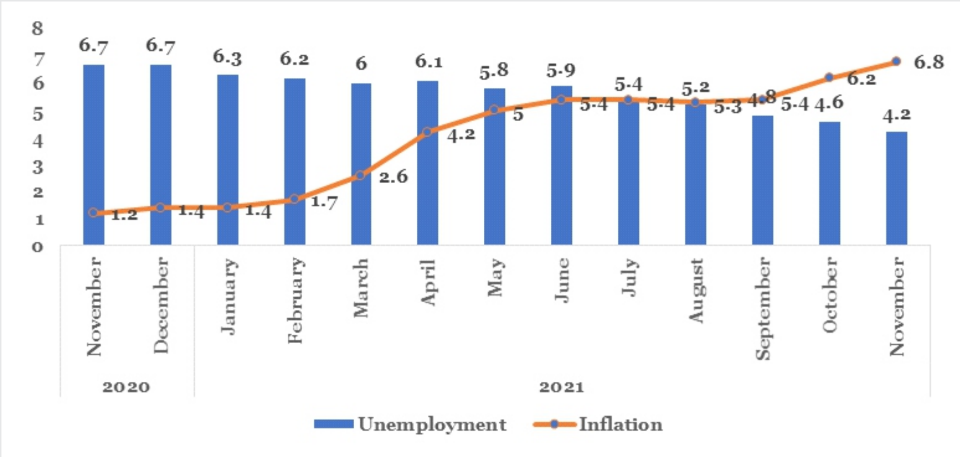
Illustration 11: The Inflationary Cost of a Stimulus



Fears of Stagflation in the US

With fears that the ***'Great Resignation'*** in the US labor market would extend well into the new year due to renewed covid-19 concerns, and that the high inflation would persist, economists nurse fears of stagflation. The US Senate had for a similar reason decided against passing the US$1.85tr Build-Back-Better Plan. Legislators argued that with inflation inching closer to 7%, the economy was not in the position to absorb such huge spending without getting further heated up. However, it does seem much more plausible to think of the current inflation as being partly an offshoot of Covid-19 related disruptions in the global supply chain and as a peculiar feature of a pandemic economy and not just as a result of over-stimulation. The failure of the bill does have implications for the world's largest economy. In its outlook, Goldman Sachs cut its US GDP forecast for Q1 2022 to 2 % from 3 % on account of the failure of the legislature to pass the BBB while also trimming its forecast for Q2 2022 to +3% from +3.5%. The third-quarter estimate was also revised down to +2.75 % from the +3% it previously forecasted (*see chart 2 below*).

Chart 2: Inflation and Unemployment in the US (%) Nov 2020- Nov 2021



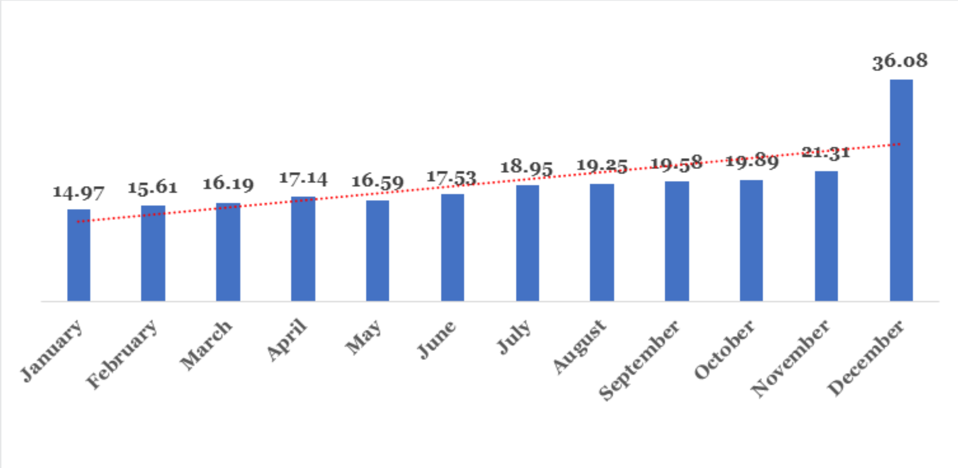
Source: IMF, Proshare Research

Turkey's Inflation woes and its unconventional policy

Turkey does not have a growth problem. The Turkish Economy was one of the few economies that did not record negative growth during the global recession of 2020. The European country grew by 1.8% in 2020. This was consolidated by a 7% growth in the first quarter of 2021. Official data from the Turkish Statistical Institute suggested that the Turkish Economy further expanded by +21.7% in the second quarter of 2021 on the back of improvement in Services, which rose by +45.8%, and in ICT which saw a +25.3% growth. Third-quarter growth was reported at +7.5% bringing overall growth in the nine months 2021 to September +9.5%.

Turk businesses and households have however been inundated by spiraling inflation due to a crumbling Lira a situation which has pushed inflation up to 36% in December 2021. Inflation soared to 21% in November due to Food, restaurants, and hotels, reflecting a surge in demand. Food inflation was estimated at 30% while Transportation cost has risen by 6% Year-on-Year. Even though the Turkish Central Bank targets a 5% inflation rate, a series of unorthodox monetary policies have seen the Central Bank cut rates by 500 basis points since September, to 14%. Inflation expectations continued to rise even as the Central bank concludes its cycle of interest-rate cuts after delivering the latest 100-basis-point reduction in support of Erdogan's expansionary but unorthodox monetary policy (*see chart 3*).

Chart 3: ***Inflation in Turkey (%) (January- December 2021)***



Source: Trading Economics, Proshare Research

Britain's Brexit Payoff

Following Britain's official exit from the EU on January 31, 2020, the world's fifth-largest economy saw its currency-the Pound Sterling take a hit, consumer confidence suffered while the London Stock Exchange plunged. Since then, markets have recovered waving off concerns of immediate gloom. The major areas of concern have continued to be Trade, Labour Market Conditions, Passporting, and Regulatory uncertainty.

Upon Brexit, the Trade and Cooperation Agreement- a provisional free trade agreement between the UK and the EU kicked in. The agreement which still allowed the two sides to trade without tariffs however did not prevent a decline in UK trade with the EU. In January 2021, UK exports slumped by 13% relative to average exports to the corresponding months between 2018 and 2020. Meanwhile, exports to the EU plummeted by 44.6% despite the Free Trade Agreement. In February, total exports in comparison to the 2018-2020 period were also less by 13.2%.

While some analysts suggest that it was an early shock which would ease in time, economists using data as of Q1 2021 estimate the cost of the Brexit using an alternate scenario built around several economies similar to the British Economy concluded that goods trade is 11% or £7.7bn pounds lower than merchandise trade had the country remained a part of the EU. Central to falling exports to the EU is the issue of ***Passporting***, which frees British-based companies from the obligation of obtaining License, regulatory approval to sell to the rest of Europe.

Brexit has, however, been a curate's egg of sorts which although achieves the purpose of restricting movement of labor from the EU but at the same time comes with the inconvenience of forfeiting the benefits of Passporting.

Labour market challenges associated with Brexit in the UK got to a head in September when over 3000 UK filling stations, ran out of fuel due to a shortage of lorry drivers. According to reports, the uncertainty of Brexit appeared to have forced many foreign drivers to leave the country a situation which according to the UK Road Haulage Association (RHA) partly prevented Hauliers from hiring enough lorry drivers. Meanwhile, steep wage rises in the UK have contributed to the inflationary environment in the UK.

Global supply breakdowns: Migration from Just-in-Time to Just-in-Case

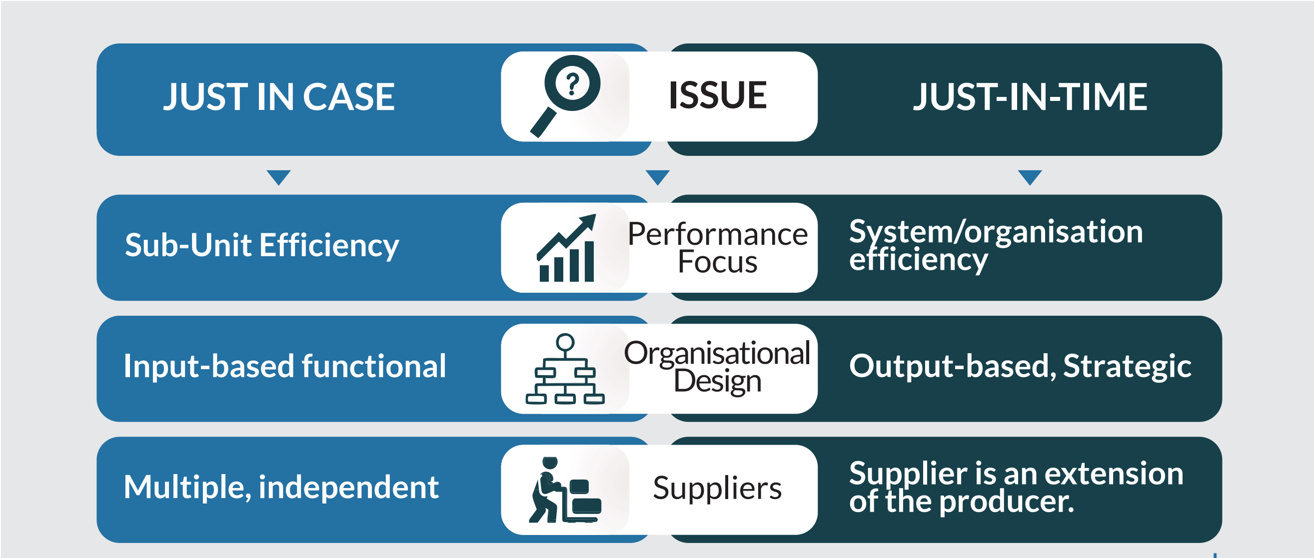
As the global shortage of chips continues to worsen since the beginning of the year, the possibility of another cycle of travel restrictions and lockdowns has been spurred by the Omicron variant of the covid-19 infection. At the onset of the pandemic, the demand for PCs and other electronics had increased, such that by the time other industries that used semi-conductors resumed, there occurred a major shortage which led to the rise in the cost of production of smartphones, automotive and industrial devices. Semi-conductor. For instance, while the Automobile industry buys about US$37bn worth of chips annually, Apple alone demands up to US$56bn worth of semiconductors. Given the variance in the volume demanded and the greater growth potentials of the electronics industry, it gets prioritized by producers of semiconductors. As a result, the worst-hit sector has been the automobile industry especially the largest companies like Toyota and Volkswagen Even though, data from Statistica suggests that the global production of semi-conductor is expected to grow by 20% in 2021, analysts still believe that the chip shortage looks set to persist for some time to come.

As a response to delays arising from shipping networks, businesses are pivoting away from the Just-in-Time inventory management technique to the Just-in-Case technique which adequately caters for supply delays, spikes in demands, or even cost of inputs and materials (*see table 1 below*)

Table 1: Between JIC and JIT Logistics Management Techniques.

BETWEEN JIC AND JIT LOGISTICS MANAGEMENT TECHNIQUES

JUST IN CASE	ISSUE	JUST-IN-TIME
Taken as given and incorporated in planning routes	Lead Time	Reduced to render small batches, economical
Taken as given and economic order quantity is calculated	Batch Size	Lot size of one is the target because of flexible system
Various Means-MRP	Production	Centralized forecasts
Existing System and optimizes within it. Information	Planning & Control	In conjunction with local pull control
Algorithmically derived to schedule. Hot lists. Maintenance of sub-unit efficiencies.	Trigger to Production	Imminent needs of down-stream unit via Kanban cards
Acceptable quality levels, emphasis is on error-detection.	Quality	Zero defects, error prevention.



Source: Proshare Research

Global Trade Trends in 2021: US, China, and the rest of the world

On a global scale, trade growth continued in 2021. The value of global trade in goods increased in each quarter of 2021 although recovery was more muted for trade in services, remaining below its pre-pandemic levels. Global trade stabilized Q-o-Q growth was still positive in Q3 2021. The value of global trade in goods and services added about 1 % to the already high level of the previous quarter. Global trade growth was about 24 % in Q3 2021, on a year-over-year basis, significantly higher than pre-pandemic levels, with an increase of about 13% relative to Q3 2019. Valued at about USUS$ 5.6 trillion, the global trade in goods set a new all-time record in Q3 2021. Trade-in services stood at about USUS$ 1.5 trillion. The quarter-over-quarter growth of trade in goods was about 0.7%, while that of services was about 2.5%. On a year-on-year basis, the trade growth rate for goods remains substantially higher than for services (22 % vs 6 %). Both the trend of slower growth for the trade in goods, as well as a more positive trend for services, will probably continue in Q4 2021. Trade-in goods are expected to remain constant at about USUS$ 5.6 trillion in Q4 2021, while the trade-in services will likely continue to slowly recover.

A glance at the major trading economies shows that as of Q3 2021 shows that compared to the average before the pandemic, US Import of Goods rose by 14% while exports only a managed 7% increase. In the case of Brazil, good imports rose by 20% while the import of services fell by 25%. China, Japan, Republic of Korea, Russia, South Africa, and the EU all recorded services import lower pre-pandemic levels (*see table 2*)

"The value of global trade in goods and services added about 1 % to the already high level of the previous quarter."

Table 2: ***Global Trends in Trade in 2021***

COMPARING GLOBAL TRADE IN Q3 2021 WITH PRE-PANDEMIC LEVELS

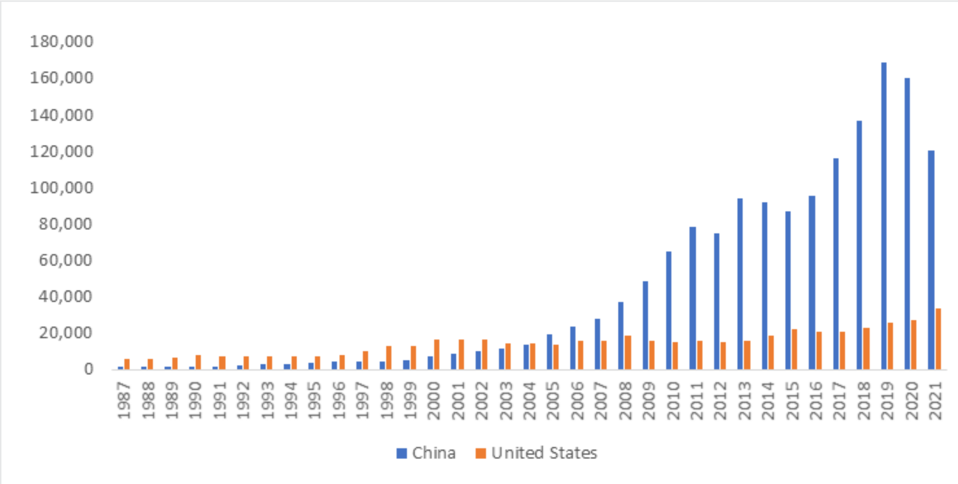
		Q3 2021 RELATIVE TO 2019 AVERAGE		Q3 2021 RELATIVE TO Q2 2021	
		IMPORTS	EXPORTS	IMPORTS	EXPORTS
Brazil	Goods	up 20%	up 33%	up 2%	down 5%
	Services	down 25%	up 2%	up 4%	up 3%
China	Goods	up 29%	up 34%	down 2%	up 3%
	Services	down 10%	up 46%	up 6%	up 14%
India	Goods	up 26%	up 27%	up 15%	up 5%
	Services	up 3%*	up 7%*	up 18%*	up 17%*
Japan	Goods	up 10%	up 8%	up 4%	down 3%
	Services	down 5%	down 18%	down 3%	0%
Republic of Korea	Goods	up 27%	up 21%	up 6%	up 4%
	Brazil	down 5%	up 24%	0%	up 12%
Russian Federation	Goods	up 21%	up 32%	down 1%	up 14%
	Services	down 30%	down 15%	up 1%	up 4%
South Africa	Goods	up 9%	up 40%	down 3%	down 13%
	Services	down 12%*	down 29%*	up 9%*	up 8%
United States	Goods	up 14%	up 7%*	up 1%	down 1%
	Services	down 8%*	down 11%*	up 8%*	up 6%*
European Union	Goods	up 16%	up 9%	up 1%	down 2%
	Services	down 4%*	down 1%*	up 7%*	up 11%*

Source: UNCTAD, Proshare Research

proshare ECONOMY

One major development in the global economy which characterized the first half of the year 2021 was the Trade war between Australia and China. Amidst other reasons, Australia joined the US and other western powers in criticizing China's Human rights as well as the manner Beijing handled the Coronavirus pandemic, calling for an international inquiry into the origin of the virus. In a swift reaction, China targeted the major exports of Australia like Sugar, Coal, timber lobster, wine, copper, and Barley with import tariffs. Australia also responded by curbing the involvement of Huawei in the country's 5G technology. (*see chart 4 below*)

Chart 4: Australia finding alternatives to the Chinese Market



Source: UNCTAD, Proshare Research

Meanwhile, despite the imposition of tariffs, the US continued to record Trade deficits with China in 2021. The world's largest economy recorded a 9.5% increase in its trade deficit with China throughout the 11 months to November 2021. Aside from May and June when the US recorded trade deficits of US$26.32bn and US$27.84bn with China, the deficits in every month exceeded the trade deficit recorded in the corresponding months of 2020 (*see table 3 below*)

Table 3: US Trade Deficits with China in 2021

2021: U.S. TRADE IN GOODS WITH CHINA

Month	Exports	Imports	Balance
January 2021	12,860.9	39,111.2	-26,250.2
February 2021	9,410.5	34,027.4	-24,617.0
March 2021	12,542.3	40,229.0	-27,686.7
April 2021	11,759.9	37,589.8	-25,829.9

Month	Exports	Imports	Balance
May 2021	12,411.3	38,732.1	-26,320.7
June 2021	12,102.0	39,946.0	-27,843.9
July 2021	11,720.0	40,368.3	-28,648.3
August 2021	11,258.7	42,997.3	-31,738.7
September 2021	10,910.6	47,414.0	-36,503.4
October 2021	16,635.3	48,032.2	-31,396.8
November 2021	16,069.0	48,385.0	-32,316.0
TOTAL 2021	137,680.5	456,832.2	-319,151.7

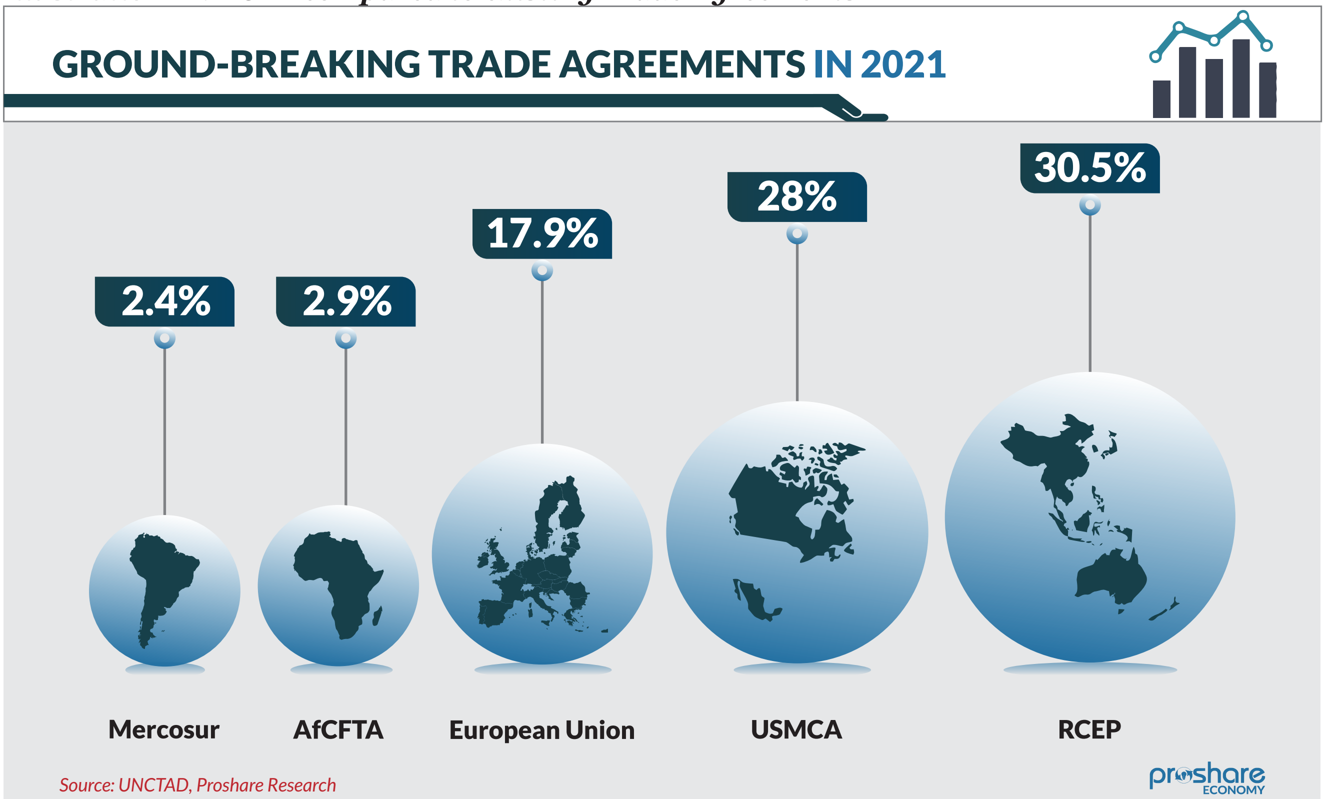
NOTE: All figures are in millions of U.S dollars on a nominal basis, not seasonally adjusted unless otherwise specified. Details may not be equal totals due to rounding. Table reflects only those months for which there was trade.

Source: UNCTAD, Proshare Research

According to a UNCTAD study published on December 15, a new Asia-Pacific free trade agreement set to enter into force on January 1, 2022, will create the world's largest trading bloc by economic size. The Regional Comprehensive Economic Partnership (RCEP) brings together 15 East Asian and Pacific countries of varying economic sizes and stages of development. Australia, Brunei Darussalam, Cambodia, China, Indonesia, Japan, Republic of Korea, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand, and Vietnam are among them. The RCEP will become the world's largest trade agreement based on the GDP of its members – nearly one-third of the world's GDP. Existing regional trade agreements by share of global GDP include the South American trade bloc Mercosur (2.4%), Africa's continental free trade area (2.9%), the European Union (17.9%), and the United States-Mexico-Canada agreement (28%) (*see illustration 12*).

> ***The RCEP will become the world's largest trade agreement based on the GDP of its members*** *-nearly one -third of the world's GDP.*

*Illustration 12: **RCEP compared to existing Trade Agreements***



Attenuating Interests in GDP and the Pivot towards Global Wealth

Taking a leaf from the accountant's playbook, many economists are beginning to get drawn to assessing the health of the global economic and financial system by taking a look at the economic balance sheet (which more accurately mirrors the world's capacity to support the generation of future income), as against the more traditional tool- GDP which is a lagging indicator constrained in its usefulness. Global wealth as presented in the balance sheet is the value of all real assets, financial assets, and liabilities. Given that financial assets and liabilities get netted off, it is, therefore, safe to say that global wealth comprises essentially of real assets.

McKinsey Global Institute in its report: ***'The rise and rise of the global balance sheet'*** which examined the balance sheets of ten countries representing more than 60 % of global income: Australia, Canada, China, France, Germany, Japan, Mexico, Sweden, the United Kingdom, and the United States made several interesting findings. The first is that the market value of the global balance sheet tripled between 2000 and 2020; in fact, the balance sheet is from US$150 trillion in 2000, or about four times GDP, to about US$500 trillion, or about 6 times GDP in 2020. In specific terms, global assets are predominantly in the form of real estate. In the same report, McKinsey Global Institute noted that Two-thirds of global net worth is in real estate and only about 20 % in other fixed assets; this raises pertinent questions about how capable wealth stored in that form is in stimulating growth and creating jobs. Meanwhile, according to the World Bank, global wealth would change over time as an investment in produced capital increases, proven reserves of Non-renewable natural capital increase. The bank also expects global wealth to grow with a growth in the labor force through population growth, Net Foreign assets, Human Capital, Renewable and (Non-Renewable) Natural Capital, and produced capital (*see table 4*).

Table 4: National Wealth Accounting Model

IMF'S NATIONAL WEALTH ACCOUNTING TEMPLATE

Wealth per capita, beginning of period

Factor	Minus	Plus
Produced capital	• Normal Depreciation *Not included: catastrophic losses from natural disasters or civil conflicts, obsolescence*	• Investment in produced capital: buildings, structures, machinery, intellectual property.
Non-renewable natural capital	• Extraction • Other reduction in proven reserves and production volume. • Decrease in unit rent due to lower market price and higher production costs. • Extended extraction path *Not included: the impact of changes in future prices and policies, because these are unknown.*	• Increase in proven reserves and production. • Increase in unit rent due to higher prices lower production costs. • Accelerated extraction path *Not included: the impact of changes in future prices and policies, because these are unknown.*
Renewable Natural Capital	• Extraction greater than natural regeneration. • Degradation • Decrease in unit rent due to lower market price and higher production cost. • *Not included: the impact of changes in future prices and policies, because these are unknown.*	• Increase in harvestable extent, improved condition, increase in unit rent due to higher price and/or unit value and lower production costs and/or improved efficiency. *Not included: the impact of changes in future prices and policies, because these are unknown.*
Human Capital	• Decline and/or aging of the labor force, declining wage rates, decline in education. • Changing wage growth trajectory due to economic shocks such as COVID-19. *Not included: loss of human capital from missed schooling and health damages from COVID-19 Loss of human capital via migration*	• Increase in harvestable extent, improved condition, increase in unit rent due to higher price and/or unit value and lower production costs and/or improved efficiency. *Not included: the impact of changes in future prices and policies, because these are unknown.*
Net Foreign Assets	Foreign Liabilities	Foreign Assets
Population Change	Mortality Out-Migration	Births Immigration

Wealth per capita, end of period

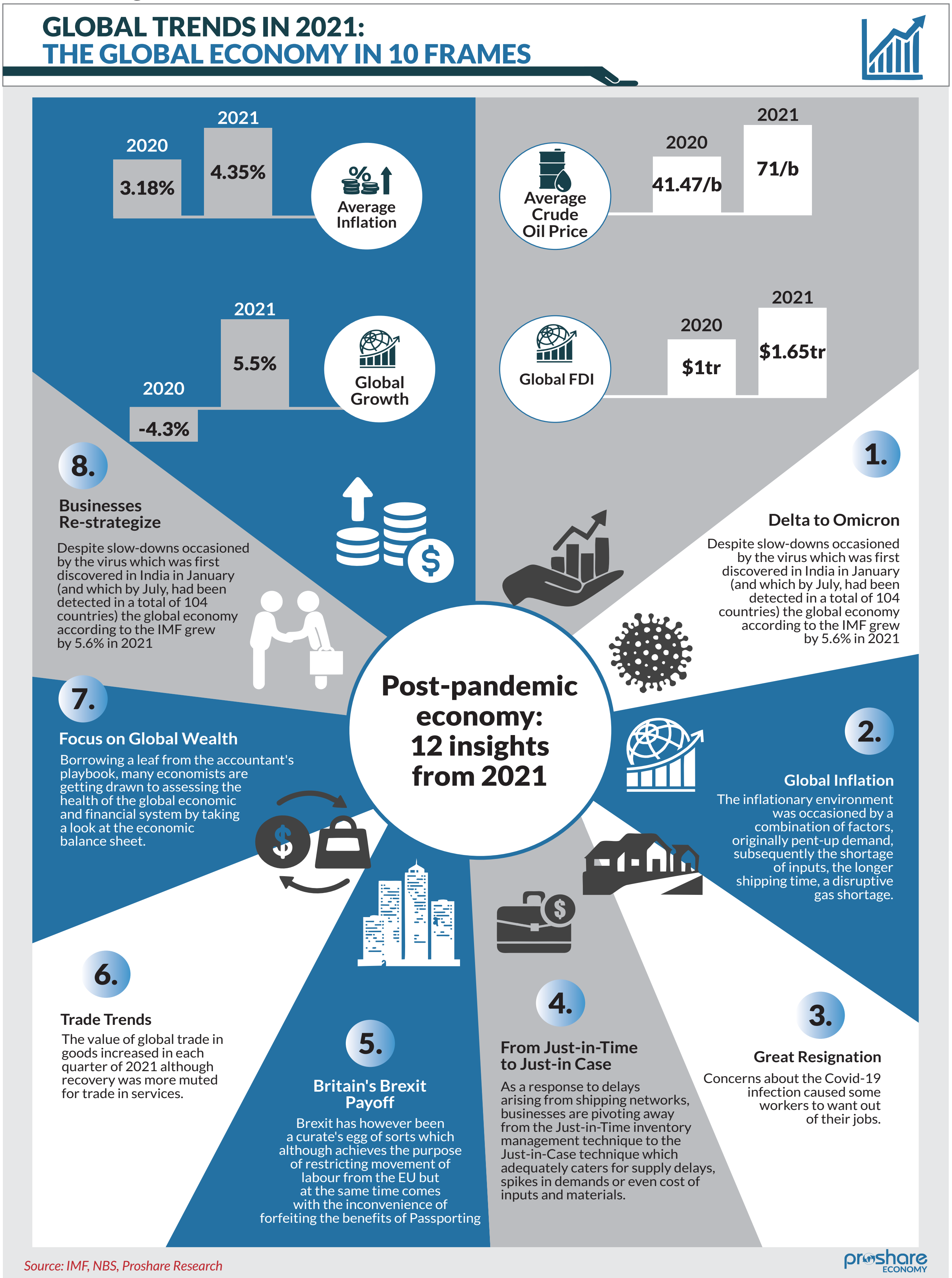
Source: World Bank

Faltering Climate, Global wave of fires, flooding & Hurricane Ida

Mediterranean countries like Turkey, Lebanon, Syria, Greece, Italy, and Cyprus recorded the worst incidents of wildfires in decades. Coupled with the slow pace of Vaccination, the wildfires in the affected countries would cause them to record lower than projected revenues from summer tourism and, as an indirect consequence, raise the climate change-related credit risk of the nations. Tourism accounted for 18b euros of the country's revenue but tourism revenue in 2021 is expected to be only 40% of that. Meanwhile. Turkey – one of the few G20 countries to expand in 2020 has also had to contend with wildfires which have affected the country's tourism sector which accounts for 13% of the country's GDP. The Turkish Economy has also had to contend with rising inflation, declining international reserves, a depreciation of the Lira, a rapidly expanding current account deficit, and increased business stress accompanied this expansion. Flooding adversely affected the tourism sectors of the economies. Hurricane Ida forced a shut-down of refining operations and oil production in the Gulf of Mexico (*see illustration 13*).

"Mediterranean countries like Turkey, Lebanon, Syria, Greece, Italy, and Cyprus recorded the worst incidents of wildfires in decades."

Illustration 13: **Global Trends in 2021**



Source: IMF, NBS, Proshare Research

Emerging Economies & Sub-Saharan Africa

"The challenges around the global access to vaccines against covid-19 is the greatest test for mankind."- ***OECD Secretary-General Angel- Gurria***

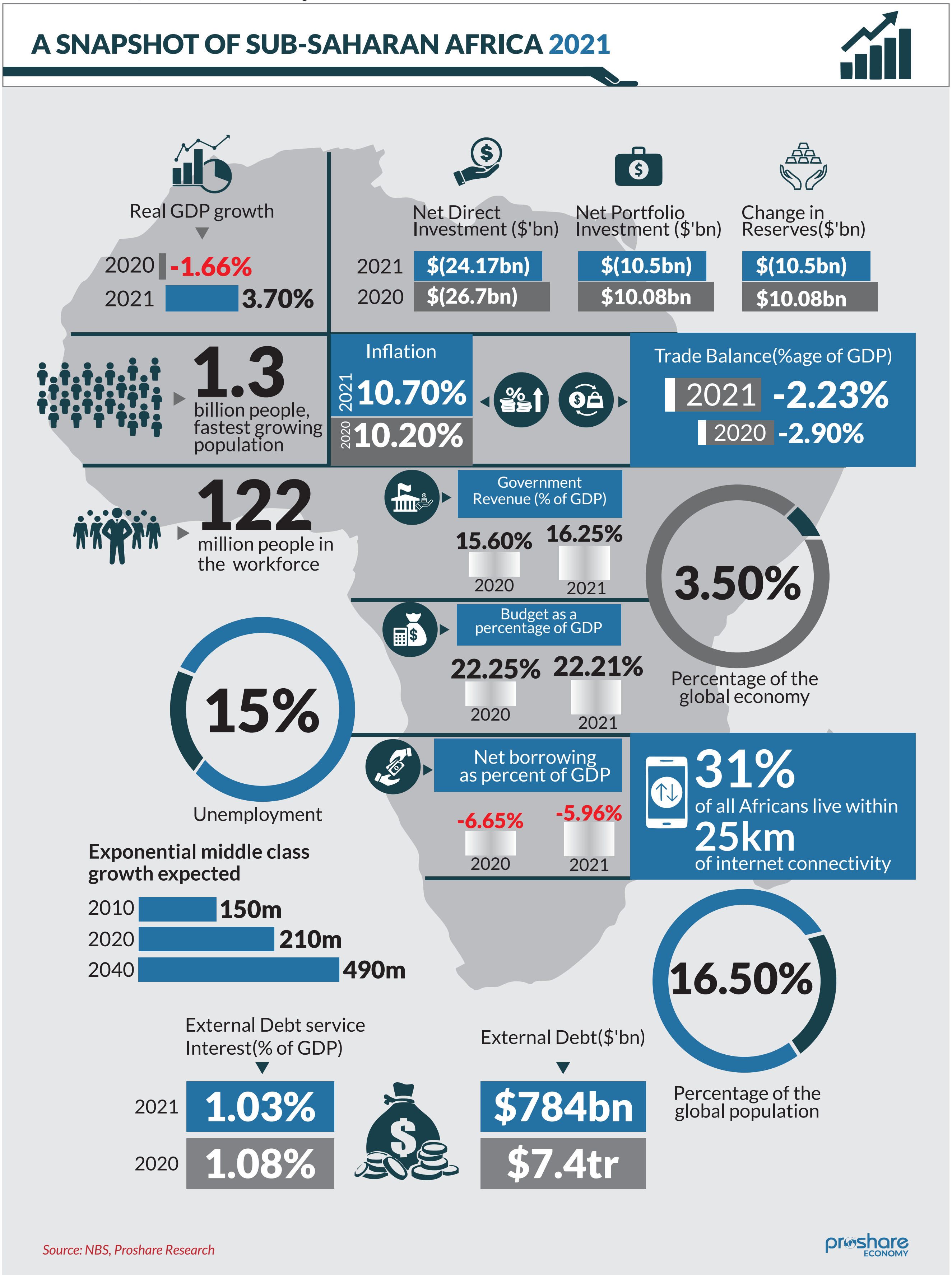
In its African Economic Outlook 2021, titled 'from debt resolution to Growth: the road ahead for Africa', the African Development Bank projected the African continent to grow by 3.4% in 2021, following a 2% contraction in 2020. The continent's expected growth was anchored on the resumption of tourism activities, a rebound in commodities' pries as well as the lift of the covid 19 restriction. However, the continent's recovery plans are faced with the challenge of lack of funds.

In the OECD Global Outlook on Financing for Sustainable Development 2021, the multilateral organization argued that developing countries lack the where-with-all to respond to the challenge of the virus. To match the scale of the OECD's intervention, Africa needed to put together an additional 6% of its GDP as an emergency stimulus. To further depict the gap between advanced economies and less developed countries, the US, the UK, and other OECD countries stockpiled up to 2 bn vaccines when Africa had only managed to administer 46.79 million vaccine doses. In effect, only 2.5% of the 2.79bn vaccines administered worldwide were received by Africans. In these low-income countries, overwhelmed health workers contend with inadequate personal protective equipment, oxygen, and treatments. In May, the IMF proposed that the world's wealthier countries could raise US$50bn the world could see up to about 40% of its population get immunized by the end of the year. The Economist Intelligence Unit also noted that while 'vaccine diplomacy' may play a role in supplying vaccines to poorer countries, much of Africa may have to wait till 2024 to achieve mass immunization. In the meantime,

The Delta variant and a Chequered Recovery.

Much of the African Economy is resource-based; with the pandemic outbreak, these economies whose proceeds had majorly run from the sale of commodities were affected by the slump in prices in the global commodity markets. A substantial capital flight worsened their conditions in the wake of the pandemic, the trade deficits of some African economies like Angola, Seychelles and Zambia soared, and their foreign exchange reserves were grossly depleted. The Imports coverage of South Africa's foreign reserves dropped from 6.8months to 5.5 months in March 2021, before improving slightly to reach 5.66months in June. At any rate, South Africa's reserves are inadequate to cover 6 months of imports. At the same time, government revenue had dropped considerably compared to the pre-pandemic levels. African governments obtained concessional finance, embarked on commercial borrowings, or even increased the production of the natural resources they exported. Still, in the aftermath of the pandemic, such alternatives were few and far between. For instance, the Democratic Republic of Congo, which earns its foreign earnings from the export of copper and gold, witnessed an increase in its current account deficit to 4% of the GDP in 2020, being only partly met by the meager capital inflows, leading to a sharp decline in the country's international reserves (*see illustration 14*).

Illustration 14: ***Sub Saharan Africa in 2021***



Realizing the need to intervene, on August 2, 2021, the IMF's Board of Governors agreed on the general distribution of Special Drawing Rights (SDRs) of USUS$650 bn to improve global liquidity. The SDR- a reserve asset- denominated in five commodities – the US dollar, the Euro, the Chinese Renminbi, the Japanese Yen, and the British Pound Sterling- is meant to help African economies improve liquidity and foreign reserves.

Inflation: Slow growth, low inflation

As part of the efforts of Central Banks to reflate their economies, a large volume of countercyclical monetary policies has been undertaken. However, while advanced economies have continued to see a rise in aggregate demand and consequently the general price level, the same has not been the case in Africa. Inflation in Africa has always been a supply-side phenomenon, with only a small element of inflation being attributed to demand pressures. While the cost-push elements have remained, inflation would be moderated by the relatively low level of government spending and excess capacity. Africa's relative demand pressures have also been attributed to currency pegs. According to analysts, the demand-side inflationary pressures have in many cases been contained by large excess capacity. In contrast, several other countries like the CFA franc monetary union have been shielded from imported inflation because their exchange rates have been pegged to the Euro. However, African countries have continued to cope with higher inflation rates, most notably Zimbabwe, which recorded an inflation rate of 56.37% for July 2021, representing a massive improvement compared to the three-digit inflation figure recorded in southern Africa in June, which remains very high. Inflation in Zimbabwe continued to decelerate because of introducing an auction system. In Angola, CPI had continued a three-year upward trend in June 2021, when headline inflation came in at 28.7%, which was 70 basis points higher than the rate in June.

AfCFTA: A timely remedy to a BOP malady

"Increased intra-African trade is what will drive economic development post-COVID-19," *Secretary-General of the Accra-based AfCFTA Secretariat, Wamkele Mene.*

In January 2021, free trading among African countries began under the African Continental Free Trade Area (AfCFTA), kindling hopes for quicker post-pandemic recovery. The AfCFTA, which establishes a single market for made in Africa goods and services, is intended to eliminate tariffs by 90 % and address non-tariff barriers such as customs delays. With an integrated market of 1.2 bn people and a combined GDP of US$3 trn, the AfCFTA provides a strong foundation for industrialization. As of April 2021, intra-African exports stand at about 17% of total continental exports. The AfCFTA is expected to increase the volume of intra-African trade by 52% in 2022. This is expected to increase value addition, help create jobs and boost incomes. While 54 countries are signatory to the trade agreement, 36 of them (an equivalent of 67%) have deposited their instruments of ratification with the depositary. Countries ratifying the agreement can trade with each other based on their tariff concessions and proposed rules of origin. About 90% of the rules of origin are currently in, while the remainder is expected before the end of July 2021. Through the instrumentality of the Afreximbank, US$500m has been provided for Pan-African Payment and Settlement System (PAPSS) in the West African Zone (WAMZ) as a pilot. Subsequently, US$3bn is expected to support the African-wide PAPSS.

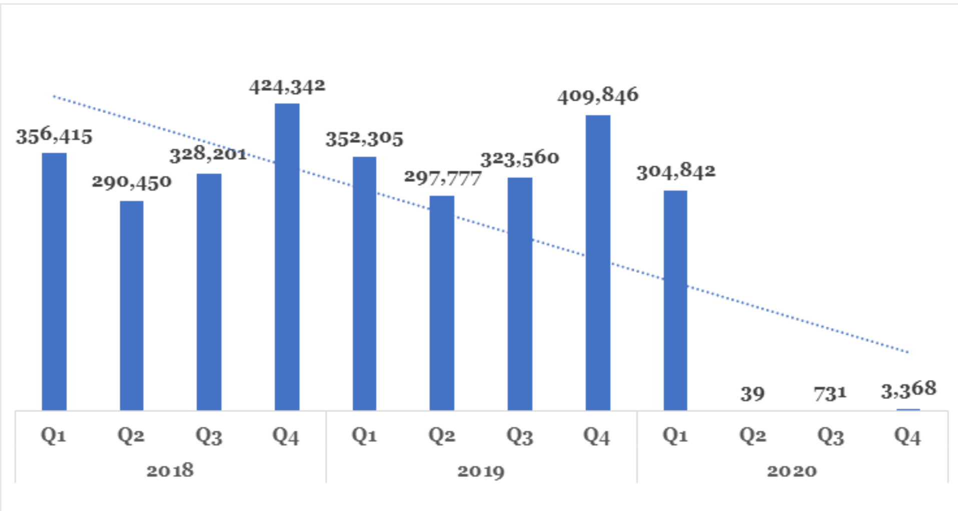
Aviation and Tourism

"The year 2021 is almost ending, but the quarantine and the Delta variant crisis have complicated the tourism sector. But we still believe tourists will trickle in," *Kenyan Minister of Tourism.*

Africa's tourism suffered a setback in 2020 due to a massive withdrawal in the wake of the pandemic. According to the World Travel and Tourism Council, Nigeria's tourism sector alone lost over 700,000 jobs due to the pandemic. The tourism sector, along with the export of primary commodities, accounts for the foreign earnings of many African countries restarted gradually, with countries like Rwanda, Kenya, Morocco, and Tunisia recording trickles of activities in their tourism industries. However, it would take a while for the tourism sectors in African countries to return to pre-pandemic levels because of health restrictions that still apply in many parts of the world. Analysts have also noted that the recovery of the tourism sector in Africa has been sluggish due to the equally slow pace of Vaccination.

In Rwanda, for instance, 60% of its 13million population is targeted for Vaccination by 2022. Yet, as of April 2021, only 9% of the pro-rated target had been vaccinated. Given the cost and availability of the vaccines, African countries like Kenya have had to hinge their optimism on the relatively higher vaccination rates in the more advanced countries from which tourists are expected. The delta variant also has complicated matters as tourists have to present a negative PCR certificate even if they have received the two shots of the vaccine. Mauritius, a major tourist destination, presents a case in point (*see chart 5 below*)

Chart 5: Number of Tourist Arrivals in Mauritius



Source: WTO, Proshare Research

Commodity Exports in Emerging Markets

In the first half of 2021, nearly all commodity prices climbed, continuing the strong recovery that began in mid-2020. Most soft commodity prices surpassed their pre-pandemic levels, while some hard commodities, especially metals, settled well above their previous levels. By March 2021, copper prices were approximately 50 % higher than at the end of 2019. The rise has been supported by the improved global economic outlook (compared to last year); analysts also believe that the significant monetary and fiscal stimulus in advanced economies also contributed to the rebound. Another primary driver of the recovery in the commodities market has been steady, although uneven, vaccination rates. Driven largely by higher-than-expected production cuts among OPEC and its partners, crude oil prices have recorded the fastest recovery from a record price collapse to reach a high of nearly US$70/b in the middle of March before dropping back to US$63/b in early April. However, the recovery has not brought crude oil prices to pre-pandemic levels as oil demand remains 5% short of its 2019 level. Improved economic outlook, as well as the passing of the U.S. stimulus bill, have also contributed to the rise in commodity prices. Coal prices rose 30 % on the quarter and have almost doubled since August, mainly due to supply disruptions. Natural gas prices also rose by one-third in 2021Q1 (Q-o-Q), primarily in response

The Economic environment In Hindsight:
from the lens of Businesses


Economy & Politics
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The Economic environment In Hindsight: from the lens of Businesses

Apart from Inflation, and Insecurity, one phenomenon that seems to have characterized the discussions of local economists in 2021 is Data credibility. This is because Inflation figures seemed to have defied the reality and, in the opinion of many, appeared to underestimate the rising cost of production, wholesale and retail prices. 2021 saw a consistent rise in the cost of utilities like electricity, cooking gas, and food items; inflation notwithstanding several sectors of the Nigerian Economy recorded decent recovery in 2021, but this may have been due to the low base from 2020.

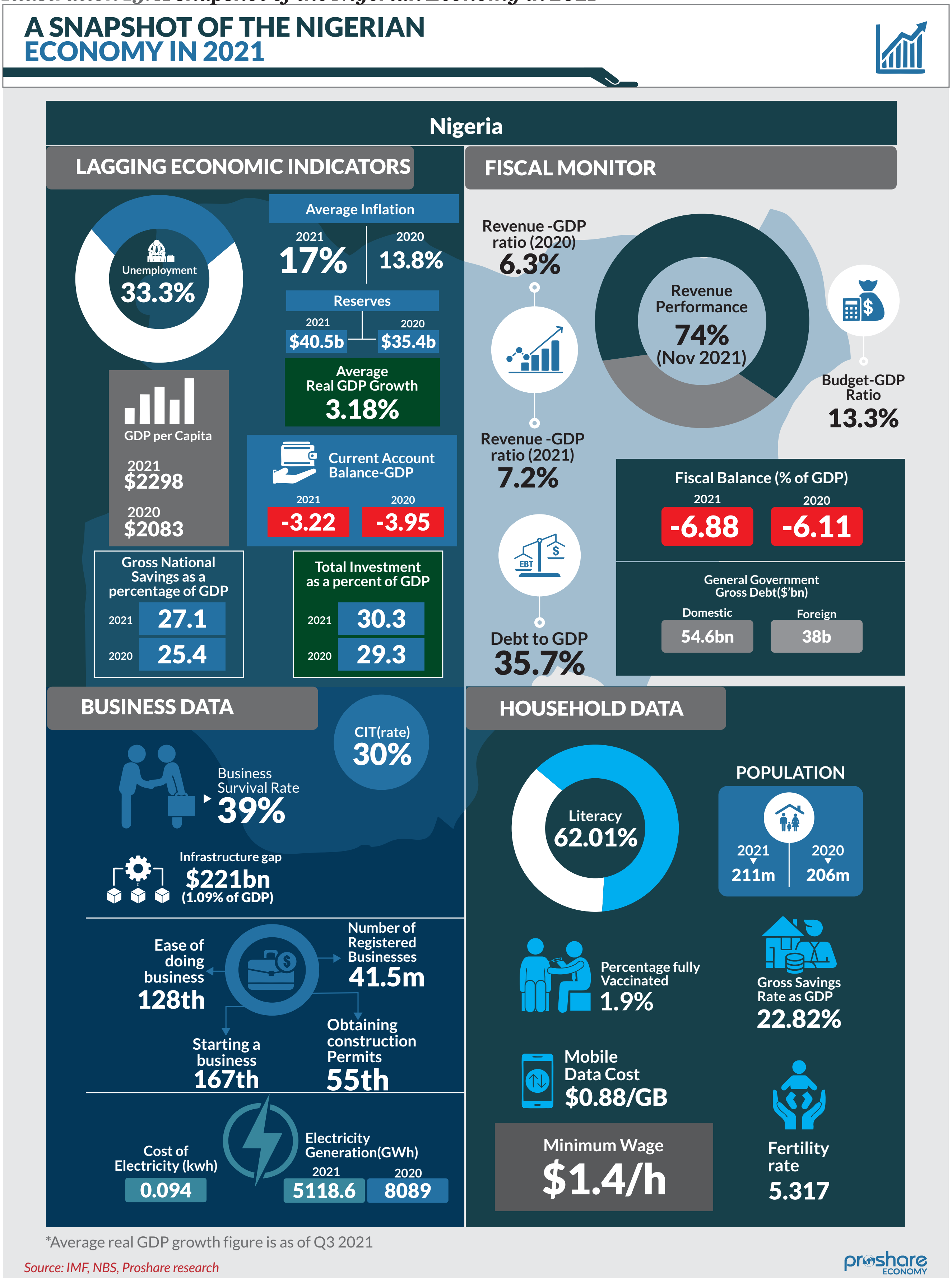
Despite the country's enormous potential, the Economy as a business environment continued to be characterized by structural problems in terms of electricity supply, inefficient transportation, inefficient cargo clearing logistics, and the level of insecurity which has especially remained a sore point for the country, threatening the livelihood of peasant farmers, especially in the Northeast and Northwest. Insurgents and secessionist movements also became more active, threatening the political and economic stability of the country.

As a result of a sharp fall in global oil prices and an increase in risk aversion in global capital markets, the Nigerian Economy became very exposed to the global economic crisis occasioned by the COVID-19 pandemic in 2020. After exiting a technical recession in Q4 2020, the second in five years, economists forecasted an improvement in Nigeria's output in 2021, IMF for instance, had in January predicted a 2.5% annual growth in 2021 to be primarily supported by higher oil values and production and a broad-based recovery in the non-oil sectors and following optimism spurred by the government's talks with vaccine manufacturers in Britain and Russia for which reason the country was expected to get the first doses of vaccination early in the year. As of December, only about 1.9% of the population had been fully vaccinated, while the total number of registered cases had reached 239,000, over 3000 deaths had been recorded.

Overall, the year was characterized by a modest recovery in terms of GDP, with an average growth of 3.17% as of Q3 2021. Compared to the -2.61% contraction recorded over the corresponding period of 2020 marks a modest improvement. Although shuffling along with a downward trend since April when it began to decline, Annualized Inflation, however, remained elevated as it averaged 17.1% as of November 2021. Capital Importation in the first half of the year amounted to US$2.78bn; this represents a 61% decrease in comparison with the first half of 2020 when a total of US$7.15bn in Capital inflows were recorded. Portfolio Investment, the major component of capital inflow also dropped by 67.5% between H1 2020 and H1 2021 (*see illustration 15*).

“Insurgents and secessionist movements also became more active, threatening the political and economic stability of the country.”

Illustration 15: A snapshot of the Nigerian Economy in 2021



Inflation & Real GDP Growth

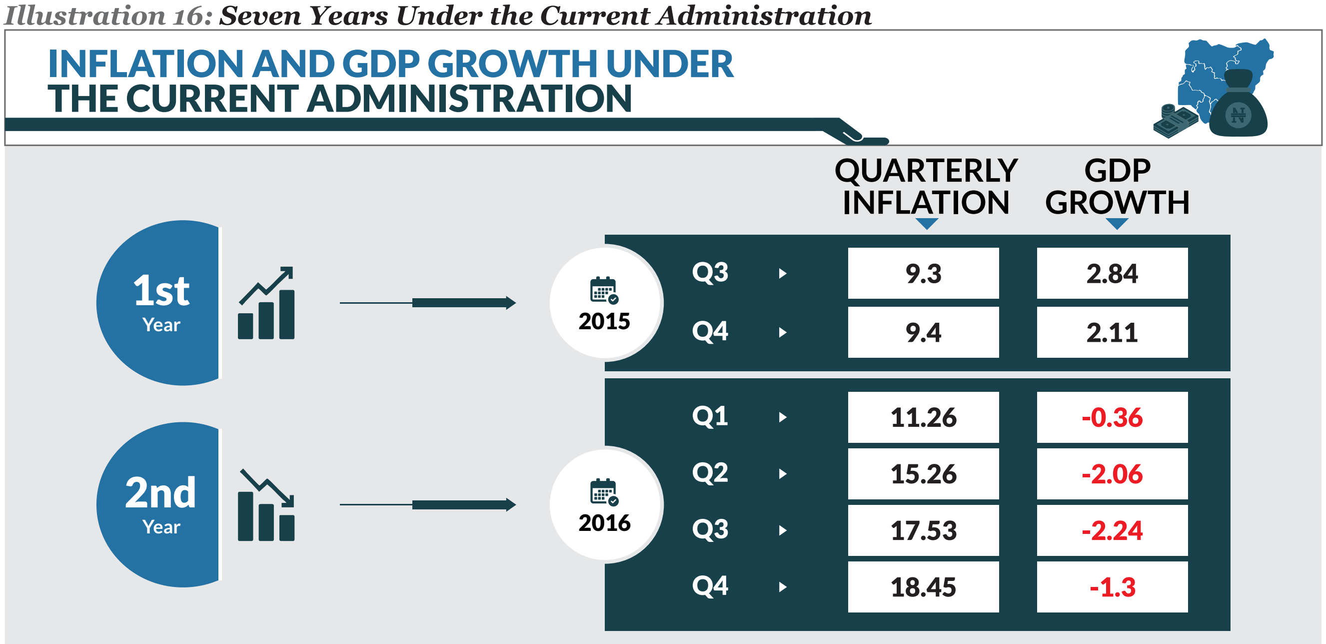
High Domestic inflation: 'when Countercyclical spending compounds a Structural problem.'

Even in pre-pandemic times, the Nigerian Economy only managed a 2.2% expansion, at which sustainable and inclusive growth was a phantom. The country's population growth rate at 3% outstripped growth, which remained largely uneven. In the first quarter of 2021, the Nigerian Economy witnessed a 0.51% growth which, although represented an improvement upon the 0.11% growth in Q4 2020, still was tepid. The Economy was on a path of sluggish recovery supported majorly by considerable government spending and a slight recovery in the non-oil sector. The real GDP growth rate of the oil sector came in at -2.21%, indicating that the sector further contracted in that quarter Y-o-Y. The average daily oil production in Q1 2020 was 1.72mbpd which was 350,000 barrels lower than the average daily production lower than the volume of oil produced in 2020.

The non-oil sector, on the other hand, grew by 0.79%. In that quarter, the Agricultural sector grew by 2.28% Y-o-Y contributing 22.35% of the quarter's GDP. The Agricultural industry had contributed 26.95% of the GDP in the previous quarter. Likewise, the Industries sector grew by 0.94% in the year's first quarter. At this time, the Consumer Price Index had increased to 18.17% up from 15.75% in December 2020, under the influence of supply constraints and demand pressures related to higher government spending. As revenue dipped, the government resorted to ways and means of financing, further contributing to the rise in inflation recorded earlier in the year.

Meanwhile, since January, the MPC retained its lukewarm stance in the hope that inflation would moderate while allowing for some economic growth, the MPC holding short term interest rate at 11.5%, an asymmetric corridor of +100/-700 basis points around the MPR; the CRR at 27.5 % and the Liquidity Ratio at 30 %. The inflation rate has followed a downward trend from 18.17% in March to 17.75% in June, although economists regard the current rate of inflation high as a cause of capital depletion, which is a disincentive to foreign direct investment (FDI). Meanwhile, households have had to contend with lower real income and purchasing power (*see illustration 16 below*).

***Illustration 16:* Seven Years Under the Current Administration**



Term year	Year	Quarter	QUARTERLY INFLATION	GDP GROWTH
3rd Year	2017	Q1	17.92	-0.91
		Q2	16.53	0.72
		Q3	16.01	1.40
		Q4	15.73	1.92
4th Year	2018	Q1	14.26	2.04
		Q2	11.77	1.46
		Q3	11.22	1.81
		Q4	11.33	2.38
5th Year	2019	Q1	11.31	2.01
		Q2	11.33	1.94
		Q3	11.11	2.28
		Q4	11.81	2.55
6th Year	2020	Q1	12.2	1.87
		Q2	12.43	-6.10
		Q3	13.25	-3.62
		Q4	14.96	0.11
7th Year	2021	Q1	17.32	0.51
		Q2	17.93	5.01
		Q3	17.01	4.03
		Q4	15.67	–

Source: NBS, Proshare Research

proshare ECONOMY

Much Ado about Covid-19.

After the lockdown imposed by the Federal government in Q1 and Q2 2020, it seems most improbable that another one would come anytime soon, despite the discovery of a new variant. At any rate, it remains arguable if the Covid-19 infection adversely threatens the workings of the domestic Economy.

Analysts believe that the emphasis on COVID-19 in Nigeria leaves the fight against malaria, Lassa fever, and Cholera at a significant disadvantage. While it is commendable that state governments doubled efforts at combating Covid-19, the contingent problem is that the same agencies saddled with the responsibilities of fighting the other infections are also tasked with dealing with the dreaded pandemic. Even though the focus is now primarily on COVID-19, Public health data shows that Lassa Fever does have a higher casualty Fatality Rate. The Covid-19 infection is seen more as an external risk factor to the average Nigerian, capable of straining exports and government revenue.

As of March 2021, Nigeria had recorded up to 150,000 Covid-19 cases and 1800 casualties of the Covid-19 pandemic, bringing the Casualty Fatality Rate of 1.2%. Analysts, therefore, recommend that while attending to Covid-19 fears through vaccination, the authorities cannot afford to lose sight of other infections that assumed epidemic dimensions.

Nigeria received 3.94million doses of the COVID-19 vaccine through the COVAX Facility, a collaboration between CEPI, Gavi, UNICEF, and WHO. According to official data, Nigeria, unlike South Africa, has not witnessed a significant outbreak of the covid 19 infection; analysts have expressed concern about the slow rate of vaccination. Vaccine hesitancy on the part of the populace has been blamed for the slow rate of vaccination in some cases, while the logistics of storage and distribution have been problematized in other cases. Nigeria had to halt the inoculation process in April when vaccines received had begun to expire. In August, Nigeria restarted vaccination after receiving 4million doses of the Moderna Covid-19 vaccine donated by the US government and another 699,760 doses of the AstraZeneca-Oxford Covid-19 vaccine from the UK.

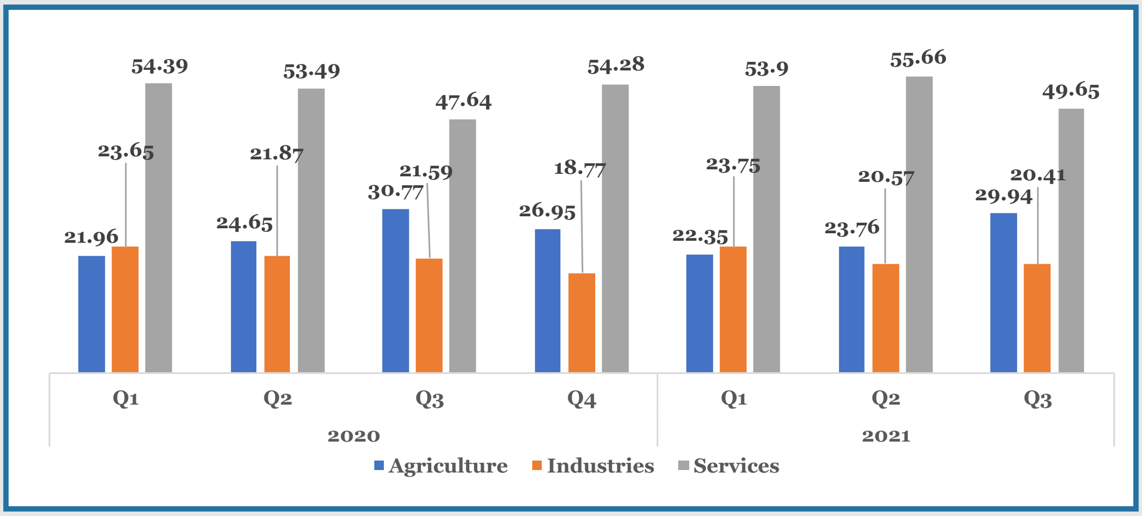
Sectoral Contribution to Growth

Nigeria's average annual growth appreciated from +2.7% in H1 2021 to +3.17% in 9M 2021. Despite the improvement, the country's growth lags its population growth rate, which as of the last count, was estimated as 3.3%. The third quarter of 2021 saw improvements in trade, Information, and communication (Telecommunication); Financial and Insurance (Financial Institutions); Manufacturing (Food, Beverage & Tobacco); Agriculture (Crop Production); and Transportation and Storage (Road Transport), which supported the real GDP growth.

The Non-Oil sector contributed 92.51% of the country's GDP in Q3 2021, 134 basis points larger than a contribution made in the third quarter of 2020, which was 91.27%, although 7 basis points lower than the second quarter of 2021 recorded as 92.58%. Meanwhile, the Oil sector contributed 7.42% to the Q2 2021 GDP; this represented a reduction of 183 basis points from 9.25% in Q1 2021, the non-oil sector accounted for the complementary 92.58%. The decrease in the oil sector's contribution could be attributed to the fall in production from 1.61mbp in Q2 2021 to 1.57mbp in Q3 2021. Likewise, the real GDP in Q2 2021 received contributions from Services 49.65%, Agriculture 29.94%, and Industries 20.41%. Overall, the service sector has remained the highest contributing sector with an average 9-month contribution (see chart 6).

Chart 6: ***Contribution of Sectors to Nigeria's GDP***

CONTRIBUTION OF SECTORS Q1 2020 - Q3 2021(%)



Source: NBS, Proshare Research.

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Table 5: ***Growth in Sectoral GDP***

SECTORAL REAL GDP GROWTH(%) Q4 2020-Q3 2021

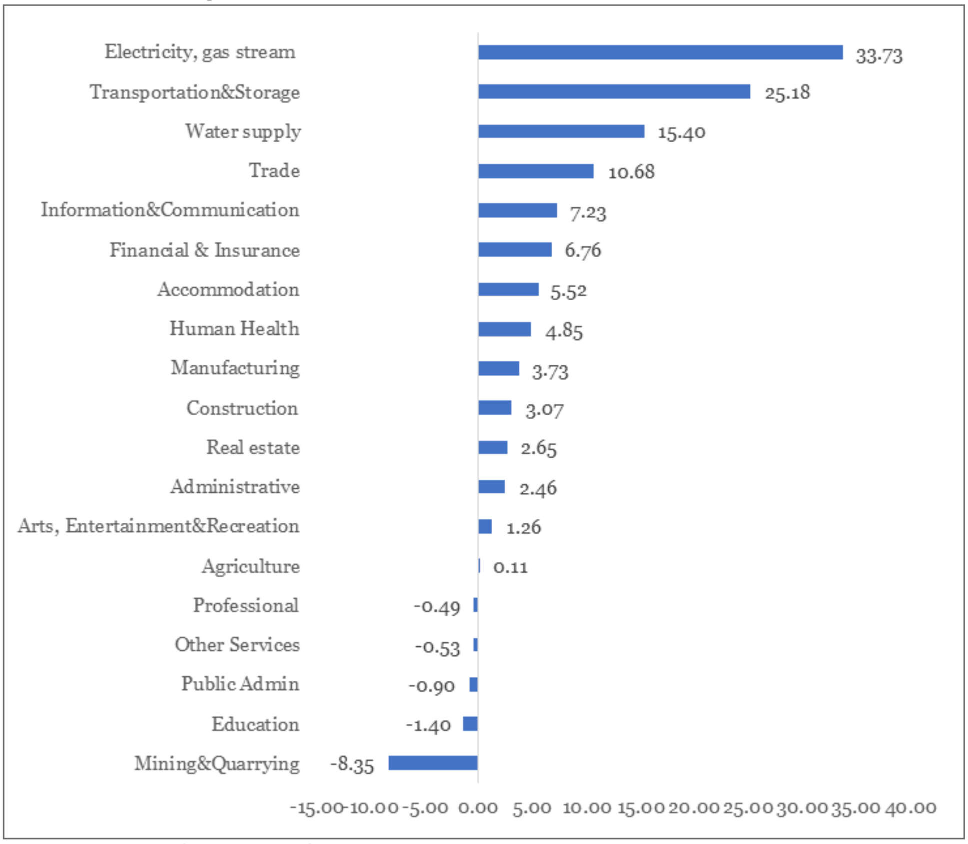
	Q4 2020	Q1 2021	Q2 2021	Q3 2021
Agriculture	3.42	2.2	1.3	1.22
Mining&Quarrying	-18.44	-2.19	-12.29	-10.56
Manufacturing	-1.51	3.4	3.49	4.29
Electricity, Gas Stream and air condition supply	-2.51	8.66	78.16	14.36
Water supply	1.92	14.75	18.48	12.97
Construction	1.21	1.42	3.7	4.1
Trade	-3.2	-2.34	22.49	11.9
Accomodation	-15.03	-4.6	19.07	2.09
Transportation & storage	-5.95	-21.89	76.81	20.61
Information &Communication	14.95	6.47	5.55	9.66
Arts, Entertainment & Recreation	-1.52	-1.13	1.22	3.68
Financial & Insurance	-3.63	-0.46	-2.48	23.23
Real estate	2.81	1.77	3.85	2.32
Professional	-5.43	-3.84	1.27	1.11

	Q4 2020	Q1 2021	Q2 2021	Q3 2021
Administrative	-5.3	–0.77	4.79	3.36
Public Admin	1.8	-0.88	-1.68	-0.15
Education	-11.43	-6.2	0.63	1.37
Human Health	3.05	4.65	4.92	4.99
Other Services	-4.27	-2.95	0.64	0.73

Source: NBS, Proshare Research, Ecographics

On average, the Electricity sector recorded the fastest growth in the 9 months to September 2021. The sector, which turned out to be the fastest-growing Economy, gained from the significant increase in electricity tariffs nationwide. The transportation sector recovered from a -21.89% contraction in Q1 2021 to deliver an average growth rate of 25.18%, having recorded a massive 76.81% rise in the sector's Q2 output. The sector grew by 33.73% over the period, ahead of the Water Sector, which grew by 25.17% in 2021. The Trade sector rose by 10.68% over the 9 months. The Information and Communication sector recorded a 7.23% growth between January and September, making it the fifth best performing sector in the nine months to September 2021. The Mining and Quarrying sector contracted by -8.35% recorded the worst performance in the period. This is tied to the drop in oil prices in the first half of the year and the low crude oil production recorded in the year (*see chart 7 below*).

Chart 7: Average GDP Growth in Each Sector (9M 2021)



Source: NBS, Proshare Research

Capital Importation

The importation of Capital over the 9 months to September 2021 dropped by US$4.08bn (N1.68tn). During this period, Foreign Portfolio Investment contributed the most significant amount to capital inflows, accounting for US$4.31bn or 73.61% of the total capital importation, followed by 'other investments,' which accounted for US$1.33bn or 22.73%; then the Foreign Direct Investment which accounted for 3.66 percent or US$214.25m. In terms of sectors, the banking industry led the chart by contributing US$2.99bn to the total capital importation in Q1 2020.

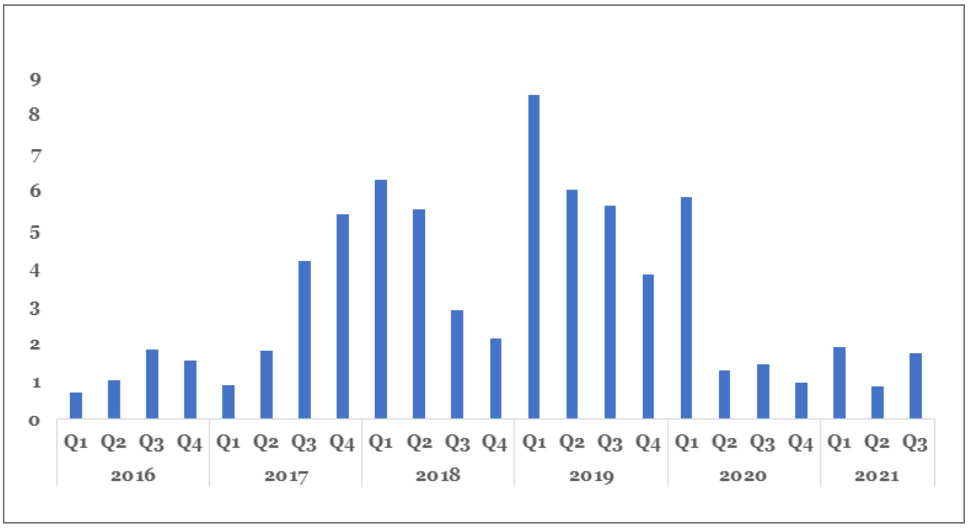
In the second quarter of 2020, the aggregate capital inflow fell by 77.8 percent to US$1.29bn when compared to the preceding quarter. The most significant amount of capital importation by type was received through 'other investments,' which accounted for 58.77 percent (US$761.03m) of the total capital imported, followed by FPI which accounted for 29.76% (US$385.32m); and then the FDI which accounted for 11% (US$148.59m) of the total capital imported in Q2 2020. By sector, capital importation by shares dominated in the second quarter of 2020, reaching US$464.57m of the total capital importation. Capital importation, however, rose to US$1.56bn in the third quarter of 2020, representing an increase of 12.86 percent compared to Q2 2020. The 93% Q-O-Q rise in capital inflows in Q3 was driven mainly by other kinds of investments besides the FDI and the FPI, the NBS said.

According to the Bureau, 'other investments' accounted for 43.75 percent (US$639.44m) of the total capital importation, while the FDI and the FPI contributed US$414.79m and US$407.25m, respectively. Further analysis showed that in Q1 2021, the total value of capital importation was US$1.90bn, which represented a decline of US$3.95bn when compared to the same quarter in 2020. Capital importation, however, declined to US$875.62m in Q2 201, representing a decrease of US$415m compared to the US$1.29bn recorded in Q2 2020.

Capital importation into Nigeria had declined by 54% Q-o-Q to settle at US$875.62 million in Q2 2021, compared to US$1.91 bn recorded in Q1 2021. In both periods, Capital importation was dominated by Portfolio Investment of US$974.14m (51%) and US$551.37m (63%), respectively. In Q2 2021, lower capital importation occurred despite Capital investment by the Stanbic Group in Stanbic IBTC Bank plc had accounted for the overall growth in capital importation.

Nevertheless, on a quarter-on-quarter basis, capital importation dropped by 43.3%, reflecting the widening premium gap in that period and weakened inflows into the money market. Over the two quarters, FDI declined 49.6% Q-o-Q due largely to the level of Insecurity, the country's huge infrastructure gap, and structural rigidities that serve as a disincentive to investment. The United Kingdom turned out as the top source of capital investment in Nigeria in Q22021 with US$310.26 million. This accounted for 35 % of the total capital inflow in Q22021. “By Destination of Investment, Lagos state emerged as the top destination of capital investment in Nigeria in Q22021 with US$780.06 million. This accounted for 89 % of the total capital inflow in Q22021 (*see chart 8*).

Chart 8: ***Capital Importation (USUS$'bn) (Q1 2016-Q3 2021)***



Source: NBS, Proshare Research

Determinants Of Capital Importation In 2021

Capital Importation in 2021 dipped substantially due to the upward trend in inflation, which averaged 17% in the year, exceeding the single-digit inflation target of the CBN; with the threat of capital depletion, investors are forced to consider climes with more excellent price stability. The management of FX in Nigeria by the CBN, mainly the choice of maintaining multiple exchange rates, has been identified as a significant factor responsible for falling capital importation. As it relates specifically to FDI, Insecurity, policy inconsistency, and the weakness of Institutions are responsible for the absence (*see table 6*).

"As it relates specifically to FDI, Insecurity, policy inconsistency, and the weakness of Institutions are responsible for the absence"

Table 6: ***Drivers of Capital Importation in 2021***

A SNEAK PEEK INTO THE DRIVES OF CAPITAL IMPORTATION IN 2021

Factors	Ramification	Impact on Trade
Exchange Rate	Parallel Premium arising from Multiple exchange rate: i.e.,(I and E FX and Official exchange rate).	Diminishes Investors' confidence, and discourages the inflow of foreign capital.
Inflation Rate	Upward trend in domestic inflation maintained beyond 15%.	Investors sought other alternative destinations of investments with better real returns.
Vaccine	Inoculation in origin countries of Nigeria's capital inflow improves.	Improvement in capital inflow
Insecurity	Worsening Insecurity in and around the country increased sovereign risk on public and private issuances.	Decline in capital inflow
Government Policy	Unstable	Investors are discouraged to channel their funds to the Nigerian economy.

Source: Proshare Research

proshare ECONOMY

Foreign Trade

Quarterly external trade grew steadily from N9.76tr in the first quarter to N12.03tr in the second quarter and then to N13.28tr in Q3 2021. This reflects the continued improvements in travel and trade and an appreciation in crude oil price. In the nine months to September 2021, the country's import bill was N22tr, while over the same period, Imports were N13.12tr, culminating in a deficit of N -8.84tr. Compared to the trade deficit recorded in the 9M 2020, this represents a 90% widening in the country's trade gap.

Crude and other Oil Exports, which accounted for up to 89% of the country's total exports as of 9M 2021, amounted to 1.93tr in Q1, to 4.08tr in Q2, and later declined to 4.03tr in Q4 2021. In Q2, Asia had emerged as the largest destination of Nigeria Exports; however, in the three months to September 2021, exports to Europe increased by 22% to displace Asia as the continent with the largest demand for

Nigerian goods. Despite, 20% in India-bound exports, the southeast Asian country remained Nigeria's largest single-country trading partner (exports) this may have been due to the slow growth witnessed in the Indian Economy (*see table 7*).

Table 7: Nigeria's Foreign Trade (Q4 2020-Q3 2021)

SUMMARY OF NIGERIA'S FOREIGN TRADE IN 2021

Q4 2020 -Q3 2021	Imports (N'tr)	Exports (N'tr)	Trade Balance (N'tr)	Total Trade (N'tr)	Crude oil exports (N'tr)	Non-Crude Oil Exports (N'tr)
Q4 2020	5.93	3.19	(2.73)	9.12	2.52	0.67
Q1 2021	6.85	2.91	(3.94)	9.76	1.93	0.98
Q2 2021	6.95	5.08	(1.87)	12.03	4.08	1
Q3 2021	8.15	5.13	(3.02)	13.28	4.03	1.1
9M0NTHS 2018 - 2021						
9M 2018	9.6	14.08	4.49	23.66	11.49	2.58
9M 2019	11.6	14.42	2.81	26.03	11.06	3.36
9M 2020	14.0	9.33	(4.64)	23.30	6.92	2.40
9M 2021	22.0	13.12	(8.84)	35.07	10.03	3.08

Source: NBS, Proshare Research

proshare ECONOMY

Diversification of Nigeria's exports

Nigeria's foreign trade has essentially been in the form of Crude-oil exportation and the imports of PMS, Durum Wheat, and Manufactured items. Despite the zero-oil plan introduced last year, the federal government targets generating US$100 billion export earnings from 22 primary non-oil goods in ten years- an equivalent of 20% of Nigeria's Gross Domestic Product (GDP). Through the various value-chains under the zero-oil policy, up to 500,000 new jobs were expected to be created, which in turn was to reduce the country's unemployment rate and spur growth.

It, however, doesn't seem the country's zero oil strategy is achieving its objective of driving more significant exports; according to the Nigeria Export Promotion Council, Nigerian primary products face a major challenge of meeting safety standards. The safety and quality standards need to be prioritized to improve the international perception of Nigerian products. Likewise, the NEPC needs to look into the prospects of linking the agricultural value chain to producers of semi-finished exportable items to raise the complexity index of the country's exports (*see table 8*).

Table 8: ***Diversification Index of Nigeria's Trade-in 2021***

DIVERSIFICATION NIGERIA'S FOREIGN TRADE
COMPARED TO OTHER MINT COUNTRIES

	Nigeria	Mexico	Indonesia	Turkey
Diversification Index of Exports	0.75	0.13	0.13	0.06
Concentration Index of Imports	0.13	0.1	0.05	0.11

Source: UNCTAD, Proshare Research

> *Through the various value-chains under the zero-oil policy, up to 500,000 new jobs were expected to be created, which in turn was to reduce the country's unemployment rate and spur growth.*

Dodging a bullet: 2021 from the Lens of Households

The welfare of the average Nigerian household worsened in the past year. The cost of housing, electricity, and food rose without a commensurate increase in the wage rate. This implies that the typical Nigerian family is poorer. A look at the country's demography shows that while its population is roughly 211 million, in 2021, it has a 5.1 dependency ratio. With a thirty thousand Naira or US$72 minimum wage, income per family per day is barely US$2.5. The country's population growth rate has been a significant concern primarily because it has, since the release of a report by the Brookings Institution in 2018, been unenviably referred to as the poverty capital of the world, with some 93.9 million people currently living below the poverty line. This imposes demands not just on public infrastructure but on the health and education facilities. While a country's population can serve as an advantage if it is healthy and educated, Nigeria cannot say the same.

Nigeria currently ranks 163 out of 191 counties on WHO ranking countries' health systems and citizens' access to qualitative healthcare. Nigeria ranked 124th globally in a 2019 Worl Economic Forum ranking behind some of its African counterparts such as Seychelles, Mauritius, South Africa, and Algeria. According to the World Bank, the general increase in food prices between June 2020 and June 2021 may have increased the percentage of Nigerians living below the national poverty line from 40.1% to 42.8%, which implies that up to a 91million Nigerians live below the poverty line. In 2021, Nigerian households saw cooking gas prices double, while electricity tariffs were hiked up twice. Given lower real income levels, many homes had to settle for charcoal to alternatives like kerosene and LPG.

Population experts analyzing the Nigerian population observe that Nigeria's fertility rate of 5.5 births per woman in 2015 increased to 5.8 births per woman in 2016. With little or no access to healthcare, infant and maternal mortality are high. Even then, the survival rate is enough to put a strain on the available resources. According to a 2016 survey conducted by the National Bureau of Statistics, Jigawa State recorded the highest fertility rate of 8.5 children per woman and Kano, 7.7. The outcome of a largely uneducated population is restiveness and crime, which very quickly characterize the country, affect its perception globally and constrain its attractiveness to investors.

Sliding Per Capita GDP

The welfare of the average Nigerian has continued to drop, as per capita GDP has shuffled along with a downward trend since 2014. From around US$2680 in 2015, the average earning potential of the Nigerian dropped sharply to US$2575.46 in 2016, largely owing to the 2016 recession. However, over the period population increased by five million annually limiting the gains derivable from an exit from the recession. By 2020, a second recession further worsened the plight of the average Nigerian reducing the GDP per capita to US$2396.

Inequality

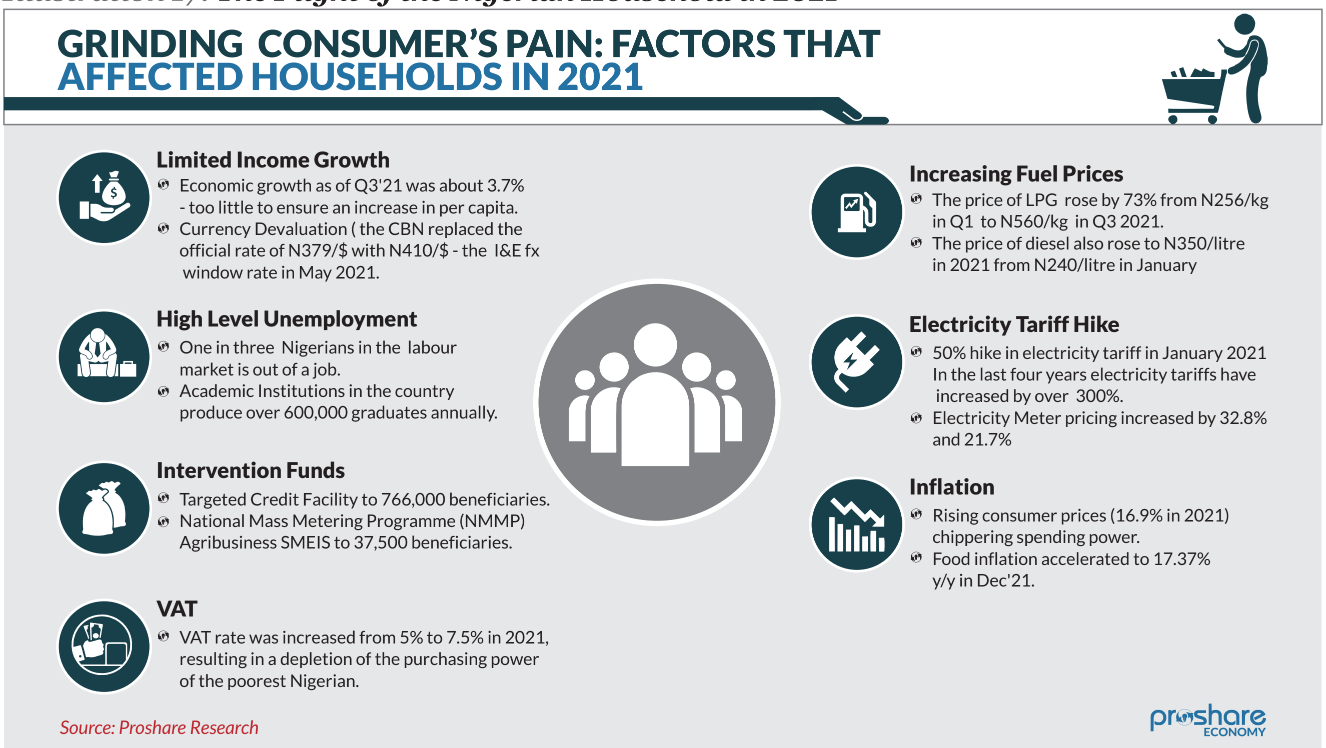
The UNDP's Human Development Index (HDI) shows that Nigeria ranks 157th on the list of countries with inequality. ***As revealed by the Pandora papers published in October, political elites take advantage of institutional weaknesses to not only live luxuriously but also amass***

vast amounts of investments abroad in their names and those of their family and cronies. This class of the citizenry who in the main run rackets in the form of fuel and Fx subsidy scams send their children to the best schools abroad while the average citizens who can also not attend the fairly more affordable private schools have to settle for very poorly managed public schools. With little or no alternative, the poor are likewise condemned to seeking medical attention in ill-equipped public hospitals, while the rich typically travel abroad for check-ups. However, during the lockdown, some political elites had to do with the healthcare system due to travel restrictions. Many expect that this would spur reform in the health sector.

Insecurity and Non-State Actors

In 2021, the activities of non-state actors rose exponentially, with an escalation of kidnapping and Insurgency in the North-west and North-East, the re-emergence of the Settlers-Nomads crisis, and agitations secessionist movements. Under the atmosphere of Insecurity and fearing that they may lose their lives or belongings, farmers refused to go to their farms, thereby limiting the productivity in the sector. For similar reasons, many legitimate businesses, especially Manufacturers, also relocated to countries like Ghana, Togo, and Benin in 2021 (*see illustration 17 below*).

Illustration 17: The Plight of the Nigerian Household in 2021



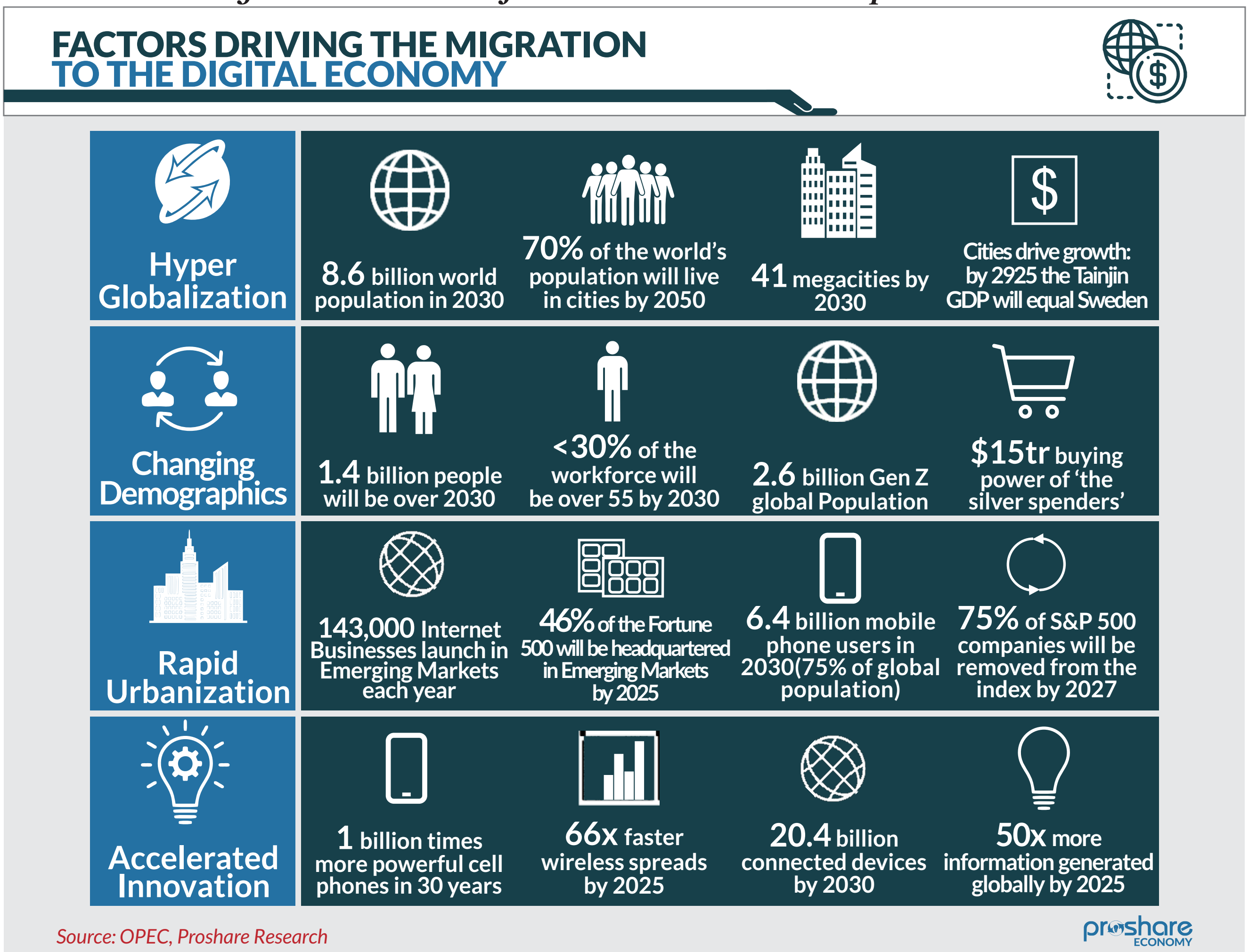
Over the years, Nigeria's growth rate has fallen below the rate at which its population is growing; this implies that the prospects for the average Nigerian are not cheering. Apart from getting effectively poorer every year because of high inflation, the consistent depreciation of the Naira against benchmark currencies makes the lives and livelihood of largely import-dependent people difficult. The contributory factors are many, but the implications are more. Large excess capacity, demographic explosion, high fertility rates, and the non-existence of an income redistribution system that would have reduced inequality and provided some social security for the poorest all account for the country's current situation. Part of the solution is to reduce the population growth rate. China's one-child policy has been the most drastic and most successful attempt to reduce the population growth rate and accelerate economic development in recent times.

Nigerian Youths Turn to the Global Digital Economy

With domestic employment opportunities thinning out, a fraction of Nigerian youths has had to explore opportunities in freelancing. This way they offer services in Data Analysis, Web Development, and Chatbot development to foreign outfits, and from that place, they not just earn a living to support their families but also earn foreign currency. A growing number of unemployed youth have also resorted to merchandise trading through social media platforms like ***Twitter*** and ***Instagram***. This has spurred a rise in transport and logistic service outfits that deliver online orders. At the same time, some youths have foreign exchange and crypto intra-day trading and speculation.

The trend has been mainly influenced by globalization through the deepening of Internet services. Apart from the economic hardship inherent in Nigeria, the shift from finding a white-collar job has been informed by the changes in the demography of the global population has also seen Nigeria endowed with a large youth population while some other countries are experiencing an aging population. Urbanization and Innovation have also played a role in the money-making patterns trends (*see illustration 18 below*).

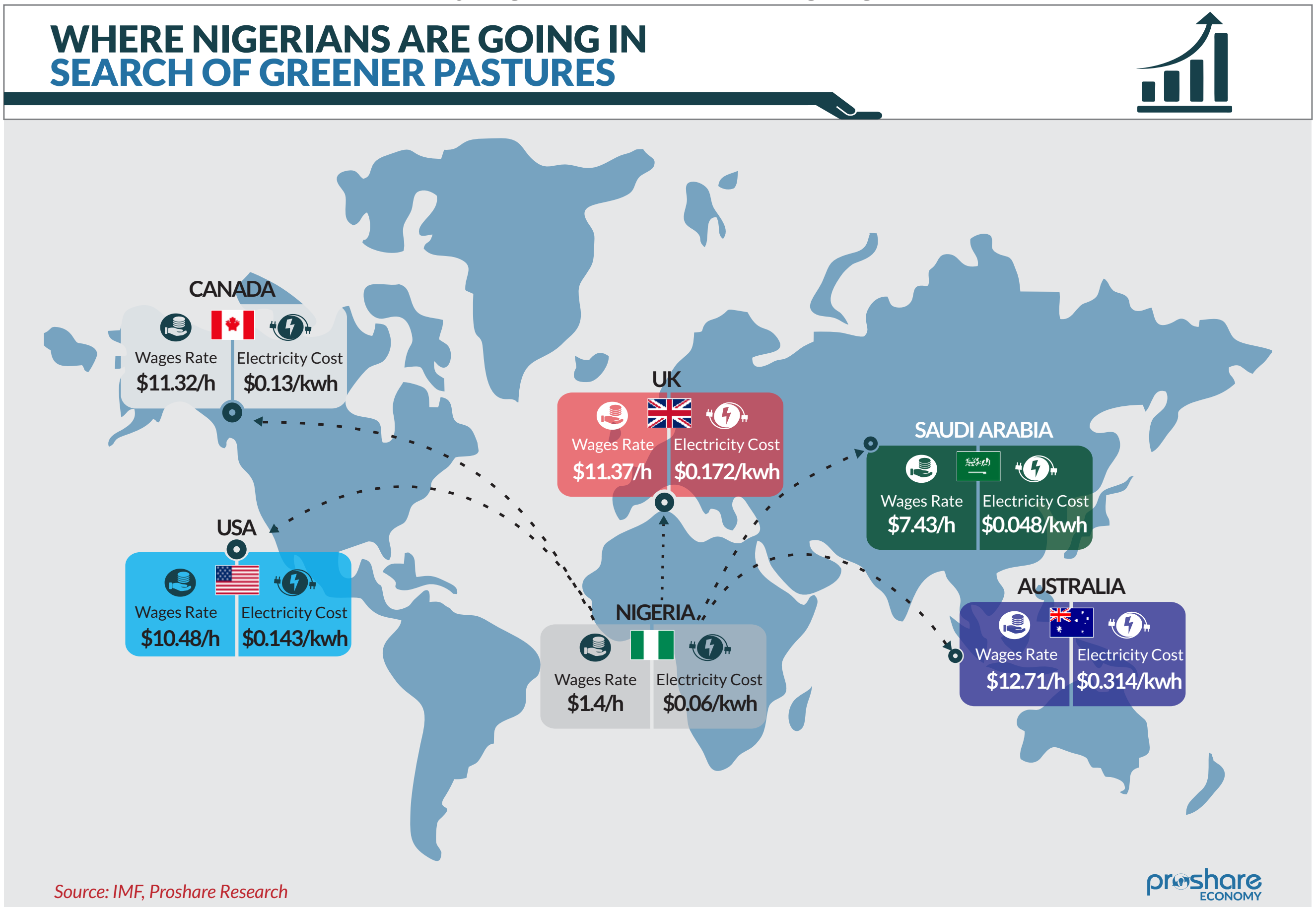
Illustration 18: Nigerian Youths Pivot from Formal Jobs to Start-ups



Where are Nigerians traveling to in search of Greener Pastures?

Due to deplorable infrastructure -hard and soft, the lack of social safety nets, Nigerians seek opportunities in other climes. With the promise of better pay and work conditions, a large number of Nigerian Medical Doctors were reported to have paid as much as N10,000 as an application for job positions with the Saudi Arabia Ministry of Health in March, this was at a time Doctors and other medical workers were on strike due to the poor welfare of medical workers. Nigerian emigrants also headed toward North America particularly the United States of America and Canada. The United Kingdom also received a contingency of Nigerian professionals seeking greener pastures in 2021. Research conducted by Africa Check-in 2018, showed that at least 12 doctors leave Nigeria for the UK every week (*see illustration 19 below*).

Illustration 19: The Destination of Nigerian Youths Leaving Nigeria



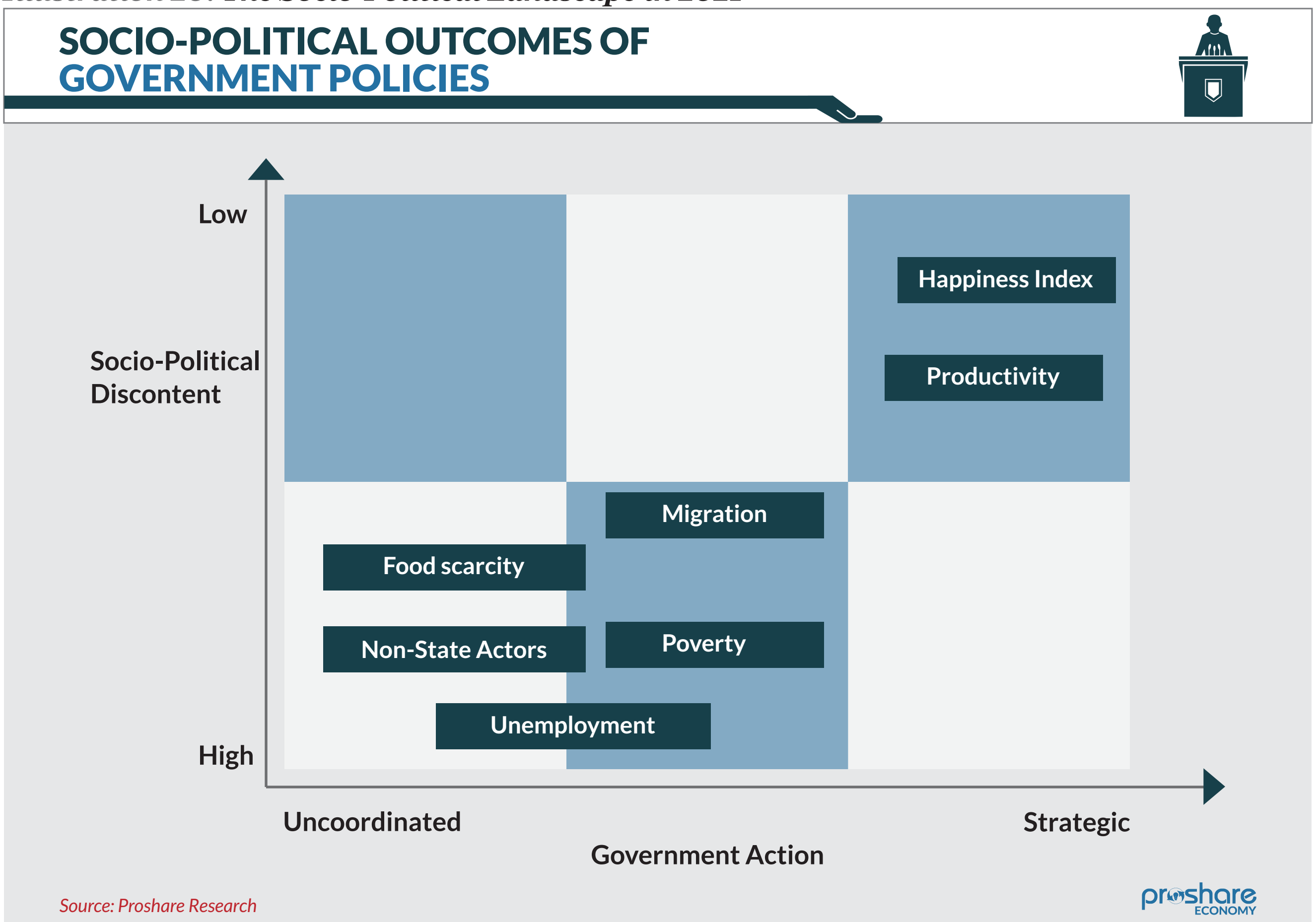
Turning the Brain Drain to Gain

Nigerian youths are leaving the country in large numbers to better their chances of living decent lives and earning enough to cater for them and their families implies that other economies are attracting the country's most endowed talents and skilled workers. While this may be of concern in the immediate term, Nigeria can take advantage of the trend to increase its foreign remittances in the medium to long term. To optimize the value of foreign remittances, Nigeria must emulate the Indian model and invest in the quality of its human capital exports.

There has been a flurry of Indian tech experts in top spots in sizeable global tech companies. Parag Agrawal now leads ***Twitter***, Satya Nadella leads Microsoft while Shantanu Narayen heads Adobe Inc. Generally, India represents a case in point; the southeast Asian country saw a tremendous improvement in its annual remittances between 2004 and 2008; on account of the financial crisis, the country's remittances declined slightly but soon reversed by rising as high as USUS$70bn just before a sharp decline in 2015. In 2019, remittances rose above US$80bn. Nigeria's remittances remained less than USUS$5bn; by 2009, remittances had grown to USUS$20bn since it shuffled along a flat corridor peaking at a little less than USUS$25bn in 2018. According to the Central Bank of Nigeria (CBN), Diaspora remittances into Nigeria increased by 15.6% QoQ to US$9.22 billion in H1 2021 compared to US$7.98 billion recorded in the second half of 2020. It also represents a marginal 2.2% increase compared to US$9.02 billion recorded in the corresponding period of 2020.

Nigeria's diaspora remittances inflow is expected to exceed the world's bank 2021 projection. In the Nine-month to September 2021, remittances rose to US$14.2bn, up 10% Y-o-Y from US$12.9bn in the corresponding period of 2020. Diaspora remittances increased by 5.1% Q-o-Q to US$4.28bn in Q1 2021. The odds are stacked against any country that fails to invest in its people, and while globalization and digitization present enormous opportunities for Nigeria to earn more to fund its growth and development extreme poverty, Insecurity, Healthcare must be addressed to improve the quality of Nigeria's Human capital exports (*see Illustration 20 below*).

Illustration 20: The Socio-Political Landscape in 2021




CEO Remuneration:
From COVID to Collaboration
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Review of the Policy Environment

The Management of Public Finance continued to take an expansionary form in 2021. Although the ripple effect of the Covid-19 pandemic lockdown in 2020 meant that the implementation of the 2021 budget would be delayed for a few months. Declining Oil Revenue in the first quarter also constrained fiscal operations, which widened the budgetary gap and led to a significant increase in public debt stock. Following the rise in the VAT rate from 5% to 7.5%, the contribution of non-oil earnings, which constitute receipts from taxes, rose from 16.5% in 2000 to 29.3% in August 2021. The Federal Government has adopted several measures to expand the sources of government earnings. Still, all three levers of Public Financial Management need to be addressed in the near and medium-term to foster growth (*see illustration 21 below*).

***Illustration 21:* Ways to Improve the three levers of Public Finance**

WAYS TO IMPROVE THE THREE LEVERS OF PUBLIC FINANCE

	Revenue Generation	The efficiency of Public Expenditure	Deficit Management
Short-term	Concession Agreements	Monitoring and Evaluation eye-mark	Tax Credit
	SRGI		Soft Loans
Medium-term	Diversification of Govt revenue	Congressional Budget Office	Asset-Linked Securitization
	Privatization		Non-Interest-bearing loans

Source: Proshare Research

Rear Light View of the 2021 Budget: Of Economic Recovery and Resilience

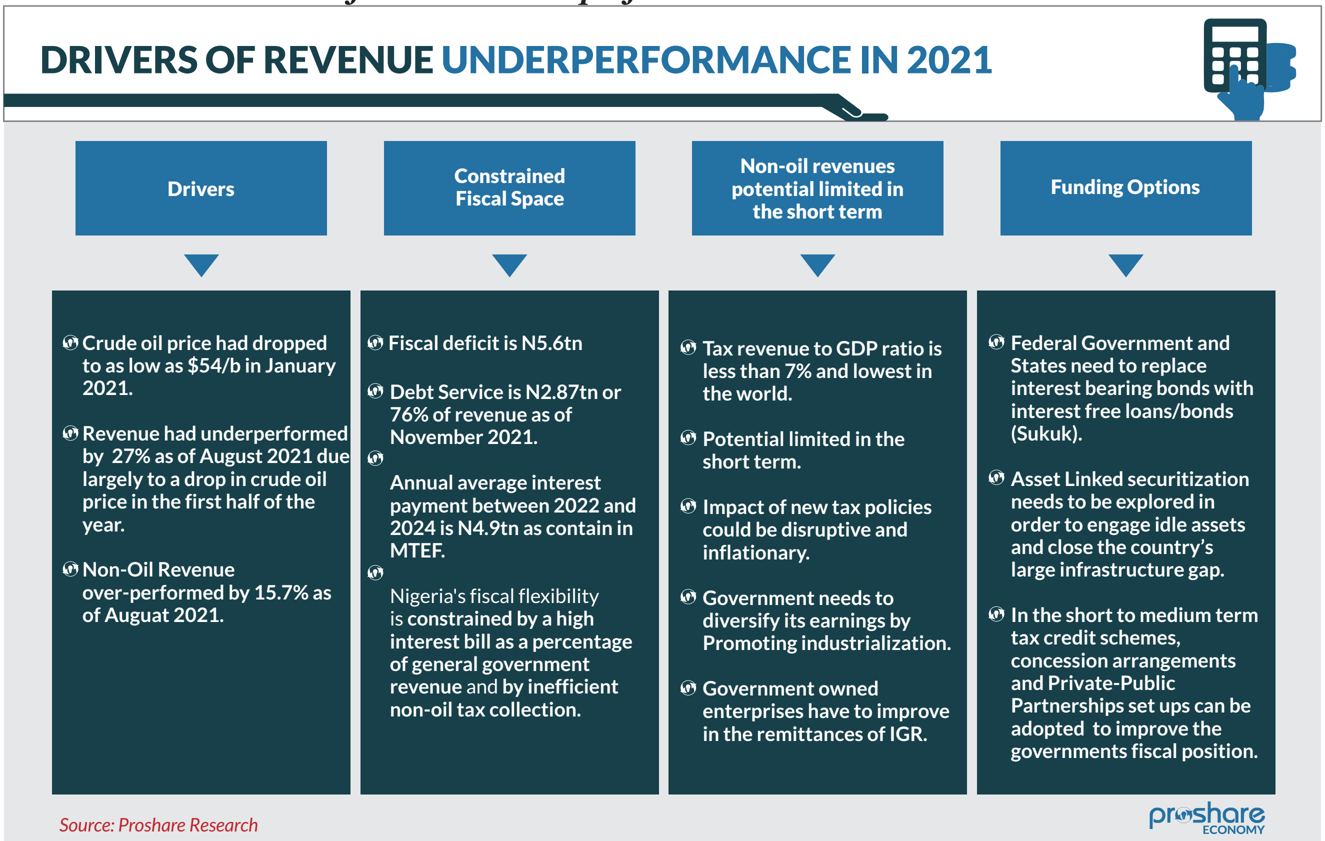
The Budget of Economic Recovery and Resilience' as passed by the Nigerian Senate in December 2021, was an N13.59tr budget with planned retained revenue of N7.99tr and a projected fiscal deficit of N5.6tr. With an assumed crude oil benchmark price of US$40/barrel and oil production of 1.86m barrels per day, the Federal government's share of oil revenue was estimated at N3.5tr. The approved 2021 budget provided N3.12tr for debt servicing, while non-debt recurrent expenditure was projected at N5.64tr. Meanwhile, N4.13tr, an equivalent of 30% of the budget, was allocated to Capital Expenditure. By July 2021, the Nigerian Senate passed the sum of N982.73bn as a supplementation for the 2021 fiscal year. Of the total sum, N123.33bn was meant for Recurrent Expenditure. At the same time, N859.40bn was passed as a contribution to the Development Fund for Capital Expenditure supplementary budget was for Recurrent (Non-Debt) Expenditure.

The amount was meant primarily to fund the Covid-19 vaccine program and the procurement of additional equipment for security. A look at the half-year Implementation report for the 2021 budget shows that as of May 2021, the Federal government's retained revenue was N1.844 tr, which amounts to ***67% revenue performance*** in terms of revenue; on the other hand, total expenditure was N4.86 tr, which represents ***92.7% of expenditure performance***. Essentially, the first half of 2021 saw budget implementation suffer from revenue shocks significantly when oil prices tanked. However, by the end of August, ***the revenue performance improved to*** N3.93tr or 73% of the pro-rata revenue, following a steady rise in crude oil price ***expenditure performance hit N8.14 tr*** or ***84%*** of the pro-rated expenditure (N9.71tr). A breakdown of the expenditure shows that while N1.79tr had been spent on capital projects and N2.57 trillion for personnel cost, N2.87 tr was utilized for debt service. ***The debt service to Revenue ratio improved from 98% in May when N1.8tr had been committed to debt service to 73% in August, at which time debt service had reached N2.87tr. In November, this further dropped to 76% as oil prices rallied breaching the US$80/barrel mark.***

The implementation of the 2021 capital budget would extend into 2022 this is because MDAs received directives from the Federal Government to the effect that the implementation of the budget is to be delayed till May 31, 2021. In a letter addressed to the Senate, the President requested that the performance of the 2021 budget be stretched to March 2022. The decision to delay the implementation of the 2021 budget was due to a knock-on effect from the 2020 budget where MDAs received allocations for capital projects but could not implement them due to the nationwide lockdowns in Q2 and Q3 2020.

The factors responsible for the underperformance of the budget include but may not be limited to the debt service and repayment obligations and a slump in oil revenue in H1 2021. Also, non-oil tax collection has perennially been low. According to the IMF, Nigeria's tax revenue to GDP ratio is the lowest in the world (the IMF's metric needs to be assessed carefully as it ignores the levies and charges paid daily by Nigerians to nonstate actors like transport unions, market associations, and community development associations (CDA's), it also does not take into account the large individual outlays on power generation, water supply, and personal or communal security). However, analysts at the IMF and World Bank seem not to realize that taxes in country's like Nigeria are stickier than in more advanced economies. When consideration is given to the charges and levies and ***"Heung Yau"*** ('fragrant grease or bribe') of non-state actors and road levies of uniformed state actors, tax rates are far higher than appears at first blush (*see illustration 22*).

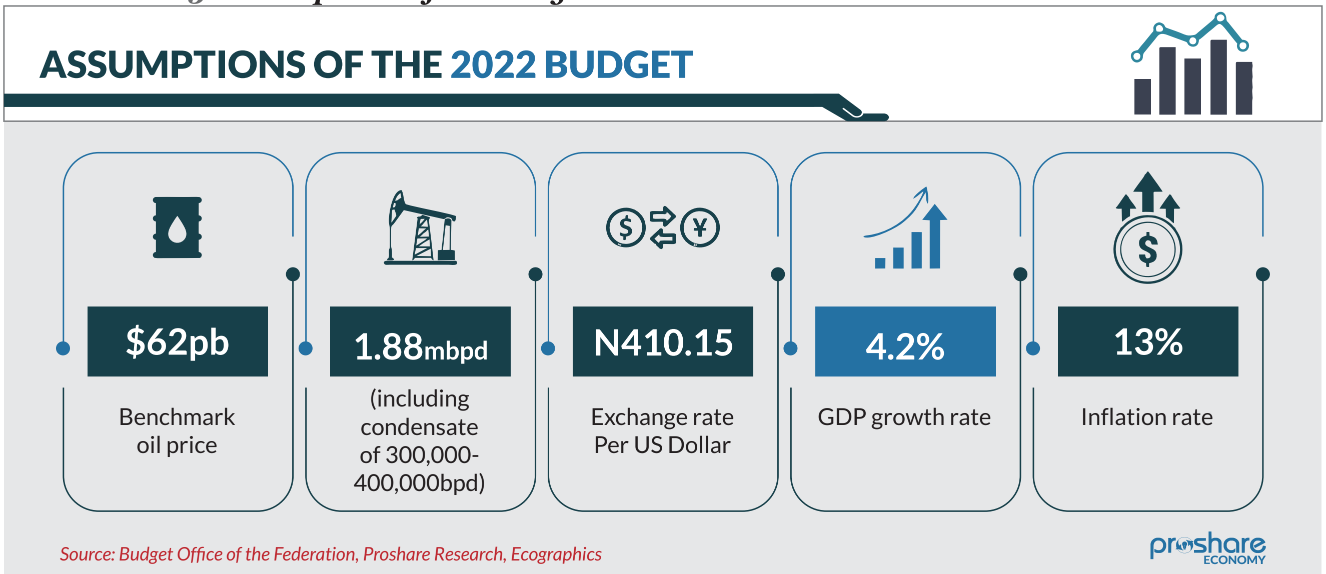
Illustration 22: ***Drivers of Revenue Underperformance 2021***



Head Lamp Gaze at the 2022 Budget: Of Economic Growth and Sustainability

The N16.39tr appropriation bill rested on an assumed crude oil price of US$57/barrel and a projected daily oil production of 1.88mbpd; this was, however upwardly reviewed by the National Assembly by 6% to N17.13tr after increasing the benchmark crude oil price to N62/barrel. Local economists have questioned the decision of the National Assembly to raise the budget's benchmark crude oil price given the degree of uncertainty that characterizes the crude oil market due to the newly discovered Omicron variant. This has led to the renewed fears of a budget overrun and that the Federal Government could once again record a large actual deficit as well as new borrowings in 2022. The more concerns (*see illustration 23*).

*Illustration 23: **Assumptions of the Budget 2022***



In nominal terms, the country's planned spending in 2022 is about 20% larger than the 2021 budget. However, when average inflation of 17.1% is considered, it amounts to about the same size as the 2021 N14.57tr budget. The National Assembly made an upward review of the 2022 proposed budget after the benchmark price was raised to US$62/barrel.

The 2022 budget as passed plans spending of N17.12tr, projects N869.7bn for statutory transfers, N3.8tr for debt service, N6.9tr for Recurrent (Non-Debt) Expenditure, the contribution to the Development Fund for Capital Expenditure for i2022 is N5.47tr. An analysis of the Federal Government's N10.74tr planned revenue reveals that N5.23tr would be generated from the FG's share of Federation Revenue, N2.22tr from Independent revenues, N195bn would be raised from Dividends, while a total of N300bn would be generated from Special Funds. Government-Owned Enterprises are expected to contribute N1.73tr in terms of operating surplus while N710bn would be generated from other sources. The Federal Governments' fiscal operations for 2022 are expected to culminate in a deficit of N6.39t, which would be financed by N5.14tr from new borrowing, N90.73bn from Asset sales/privatization proceeds, and N1.16tr from Multilateral/Bilateral project-tied loans.

Budget Size: the justification for more significant deficit spending

Nigeria has perennially run budget deficits, yet given the country's GDP and stage of development, Analysts believe that the size of the budget can be larger to improve the growth prospects of the Economy. The fact that government Revenue sources have in recent times been badly affected by the drop in global crude oil price and the fact that revenue diversification would only materialize in the long term means that large deficit spending would be a permissible feature in the budget of ambitious governments take a look at the Budget balance to GDP ratio. The Fiscal Responsibility Act recommends a 3% to GDP Budget Balance to GDP ratio however, the Act makes an exception for periods of crisis. The federal government has, between 2016 and 2021, recorded an actual budget balance to GDP ratio of between -4% and -6%. Over the same period, Egypt-the second largest Economy in Africa recorded a budget balance to GDP of -12%, -10.7% -9.5%, and -8% in 2016, 2017, 2018, and 2019, respectively. This shows that countries with the size of Nigeria's Economy are spending more to grow faster. Likewise, Kenya ran a budget balance to GDP ratio -8.1% in 2015; the figure grew to -9.0% in 2017. an average country has in Nigeria is higher than the 2021 deficit to GDP ratio, which was 3.57%, while also exceeding the threshold contained in the Fiscal Responsibility Act (2007).

A per capita analysis of the national budget (aggregation of the budget of all the federating units) shows that Nigeria's 2021 budget provides US$200 for each Nigerian while the South African budget makes available 10 times as much -US$2,444 for each citizen. When compared to Egypt, whereas much as US$1504 is budgeted per citizen, the case for a larger budget is better understood (*see table 9 below*).

Table 9: Budget to GDP Ratio Across Countries 2021

TOTAL GOVERNMENT SPENDING AS A PERCENTAGE OF GDP

	% of GDP
South Africa	37.7%
Ghana	29.8%
France	21.9%
Kenya	24.2%
Nigeria	8.8%
US	20.7%

Source: eurasia group, Proshare research

Cost of Governance and Setting Priorities

Although large deficits may imply an increase in the country's debt stock and debt servicing obligations, economists suggest that this may not always be a bad economic decision. Capital expenditure is prioritized, earnings are efficiently utilized in prosecuting revenue-generating projects. They argue that the tax revenue (corporate and personal) generated in subsequent years would be sufficient to defray the cost of the borrowings). It becomes necessary to look at the allocation of the 2021 budget to decipher important patterns. Mainly we focus on the portion of the planned spending meant for running Ministries and Departments(Recurrent Expenditure) as against capital spending which is the portion of spending that betters the country's capital stock.

A glance at the 2022 budget shows that Recurrent expenditure for 2022 is projected at N6.9tr. Drilling down The Ministry of Defence gets N996bn, N79.24tr for the Ministry of Foreign Affairs, N55.79bn for Federal Ministry of Information and Culture, N257bn for Ministry of Interior, N7bn for Office of the Head of Civil Service of the Federation, and N4.47bn for the Auditor General for the Federation.

The Federal Ministry of Police Affairs received N518.53bn, the Ministry of a communications and Digital Economy got N23.38bn, National Security Adviser – N155.82bn Infrastructure Concession Regulatory Commission – N1,34bn, Secretary to the Government of the Federation – N62.57bn, Federal Ministry of

Special Duties and Inter-Governmental Affairs – N4.44bn, Federal Ministry of Agriculture and Rural Development – N75.54bn, and Federal Ministry of Finance, Budget and National Planning – N28.60bn.

In addition, the Federal Ministry of Industry, Trade, and Investment received N17.96bn, Federal Ministry of Labour and Employment – N14.45bn, Federal Ministry of Science, Technology and Innovation – N49.68bn, Federal Ministry of Transport – N15.89bn, Federal Ministry of Aviation – N7.69bn, Federal Ministry of Power – N6,26bn, and Ministry of Petroleum Resources – N30.50bn. Also, N12.04bn was budgeted for the Ministry of Mines and Steel Development, N31.93bn for Federal Ministry of Works and Housing, N870m for National Salaries, Incomes and Wages Commission, N456.25m for the Fiscal Responsibility Commission, N10.66bn for Federal Ministry of Water Resources, N26.76bn for Federal Ministry of Justice, and N11.66bn for the Independent Corrupt Practices and Related Offences Commission.

The preceding shows that the Federal Government is spending a fortune to maintain the pay and perks of civil and public servants. Capital expenditure in the 2022 budget is put at N5.4tr, which is only 34% of the budget. The government needs to ensure that expenditure is prioritized for revenue-generating growth-stimulating capital projects to allow for sustainable growth. An analysis of the public wage bill reveals that 27.6% of the Nigerian Budget in 2021 was committed to meeting the civil and public service wage bill. In the USA, only 4.3% of the budget was utilized for the wages of public servants. Likewise, Nigerian public office holders received as much as 46.9 of the revenue generated by the country in 2021. (*see table 10 below*).

Table 10: ***Cost of Governance as a Portion of Revenue 2021***

PUBLIC SECTOR WAGE BILL ACROSS COUNTRIES

	% of GDP	$ per Capita	% of 2021 budget	% of Revenue
South Africa	12.1%	751.81	32.2%	42.8%
Ghana	7%	167.7	23.5%	41.8%
France	5.7%	2392.31	26.4%	35%
Kenya	4.3%	83.62	17.6%	25.7%
Nigeria	2.4%	44.37	27.6%	46>9%
US	0.9%	627.59	4.3%	5.4%

Source: eurasia group, Proshare research

proshare ECONOMY

Government Borrowing

An analysis of the country's debt profile shows that total debt is US$92.62bn, of this amount, Domestic Debt accounts for US$54.67bn while External debt is estimated at US$37.95bn. US$22.67BN of the country's external debt is owed to Multilateral and Bilateral Debts while Eurobonds, Commercial and Promissory notes account for a total of US$29.64bn.

The size of the country's debt service to revenue ratio as of November 2021 was estimated at 76% this suggests that a chunk of the country's earnings is expended in servicing debts. While finding quick fixes in terms of revenue are generally recommended, there is yet an urgent need to address the size of interest payments on existing debt stock. The replacement of high interest-yielding commercial bonds in FG's debt profile with interest-free commercial bonds represents a veritable alternative.

This debt profile would probably be slightly better under a no-subsidy regime or a more efficient tax collection system, and where governance costs are kept minima. Nigeria's growth trajectory requires bold spending plans, which cannot do without some form of borrowing. The reality is that debt would continue to rise, but this does not have to imply higher debt costs. Interest payments can be kept minimal if the Federal government selects more efficient debt options; the most preferred financing options are interest-free commercial bonds.

By choosing to issue non- interest-paying bonds, the DMO can help the country avoid an unwarranted depletion of already declining revenue. The potentials for issuing non-interest debt are available locally, and globally, while other countries are taking advantage of the opportunities; Nigeria continues to be the laggard, thereby piling up huge debt service obligations which are significantly denominated in foreign currencies, a situation that worsens the situation.

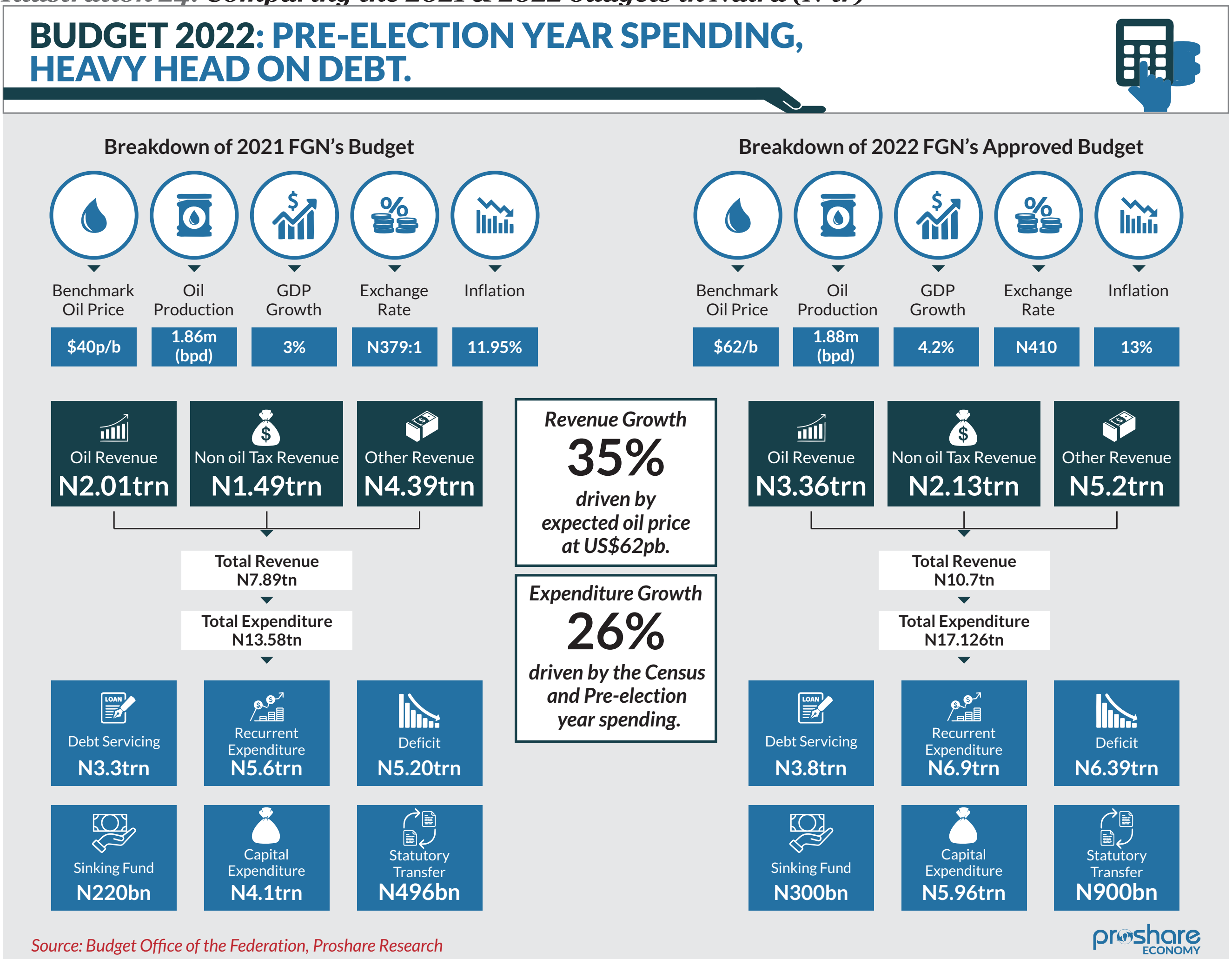
An attestation to the enormous opportunities is that public debt-GDP in most healthy developed, and emerging economies is increasing. However, interest payments have remained relatively small in terms of both values and percentages of revenues. This growing phenomenon can simply be explained by the growth in the issuance of asset-linked debts instruments. The growing number of assets that are eligible for debt-securitization are easily convertible for equity-securitization.

A case in point is that of Saudi Arabia, where state-owned Oil corporation ARAMCO, issued an IPO that helped the government unlock huge funding before issuing a Sukuk internationally.

Nigeria needs to restructure its debt profile by replacing interest-paying bonds with interest-free securities to drastically reduce or eliminate the N4.9tr annual average interest payments projected in the 2022-2024 MTEF. Rather than issue interest-paying bonds to fund infrastructure, the government should create special purpose vehicles for packaging infrastructure assets for interest-free financing through asset-linked non-convertible or convertible securities (*see illustration 24*)

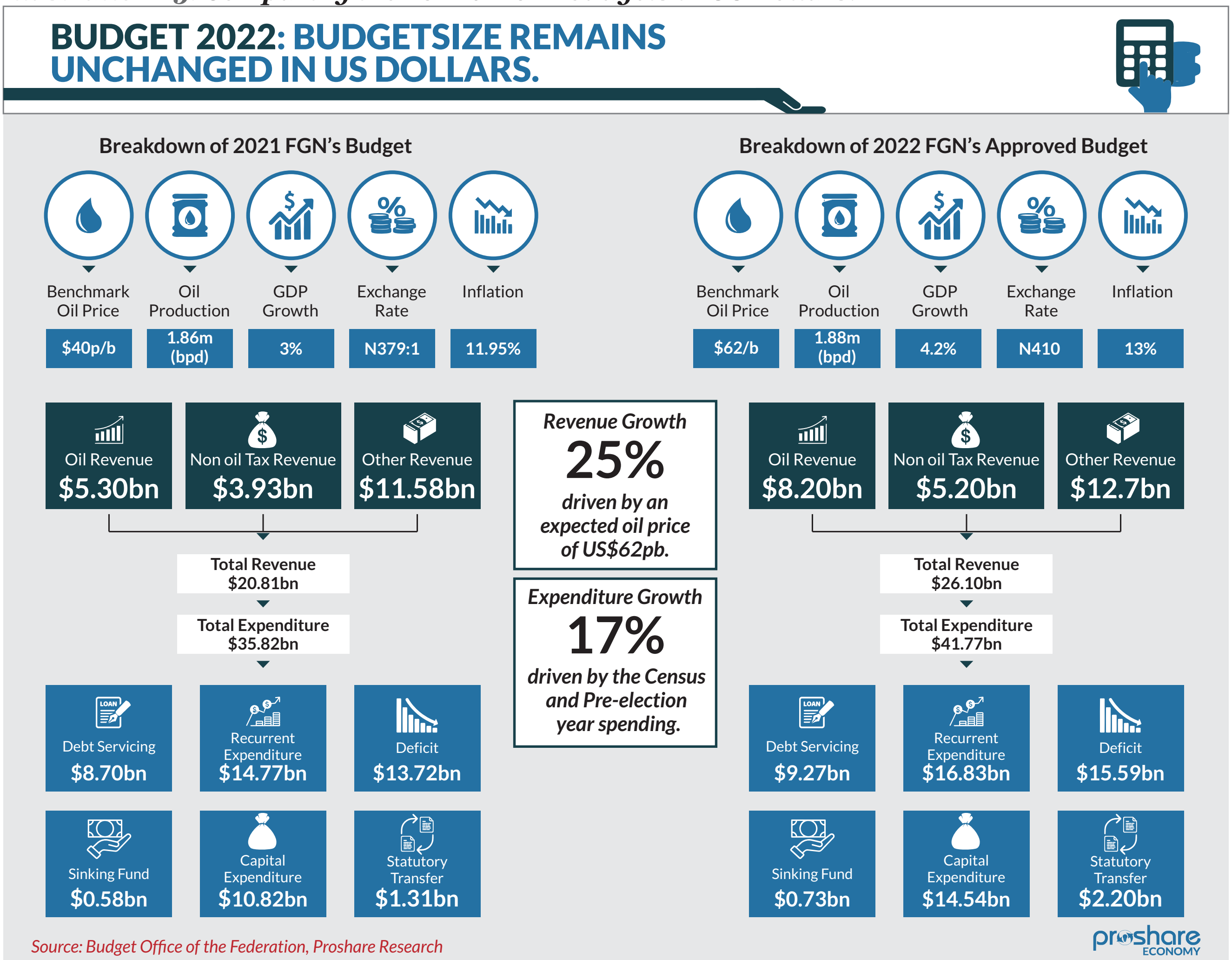
"The growing number of assets that are eligible for debt-securitization are easily convertible for equity-securitization."

Illustration 24: ***Comparing the 2021 & 2022 budgets in Naira (N'tr)***



In dollar terms, revenue generation is expected to be 25% higher in 2022 than 2021 while expenditure under the 2022 budget is about 17% larger than the 2021 budget. However, given a price growth of about 16.98%, the budgets in both years under appraisal are more or less the same (*see illustration 25*).

Illustration 25: ***Comparing the 2021 & 2022 budgets in US Dollars.***

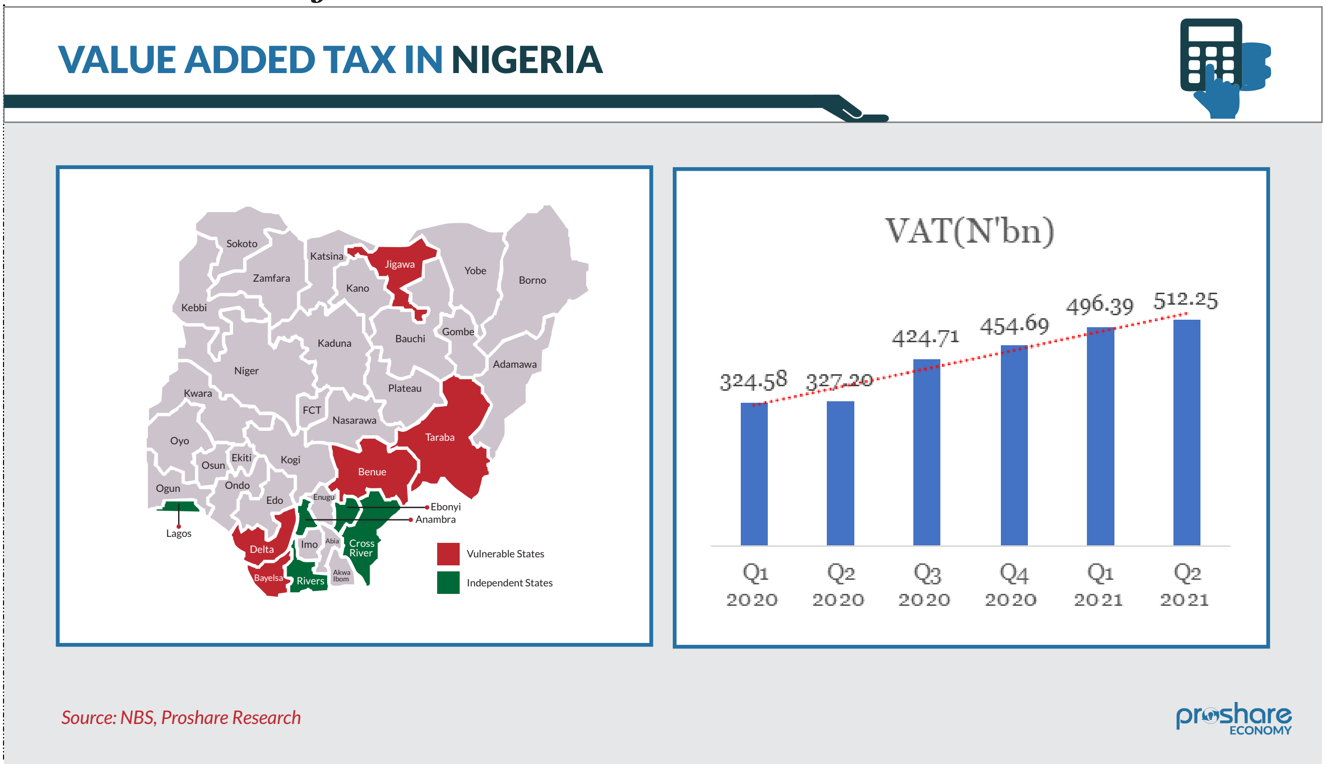


2022 proposed budget is to be majorly financed by oil revenue(N3.16tr), Non-oil Taxes (N2.13tr), and N1.82tr being revenue from Government Owned Enterprises (GOEs). In keeping with the January to December fiscal calendar, the Budget was signed by the President on the final day in 2021.

Fiscal Debates in 2021: of 'Sin taxes', VAT, Stamp duty, and Fiscal Subsidiarity.

Early on in 2021, the Federal government announced the increase of the VAT rate from 5% to 7.5%. This is believed to have spurred the rise in the general price level recorded in the first half of the year. In September, the Rivers state government, in a suit filed in a federal high court in Port-Harcourt, contested the legality of the Federal collection of Value Added Tax. After the court ruled in favor of the Rivers state government, the state assembly swiftly passed a law mandating all businesses to henceforth remit their VAT payment to the state government; a counter judgment was, however, delivered in a Federal high court in Kebbi State, being a judgment from a coordinate court, FIRS later approached the appellate court, and it ruled that status quo be maintained. Proshare noted that apart from Lagos, Rivers, Anambra, Ebonyi, and Cross-river states, all other states will experience severe revenue shocks if VAT becomes administered by States as against the Federal government (*see illustration 26*).

*Illustration 26: **VAT Dynamics in 2021***



Likewise, in a suit filed by the Attorney Generals of the 36 state governments, the court was petitioned to advise on the collection of 85% of all stamp duties collected on electronic money transfer levy, on electronic receipts, or electronic transfer for money deposited in deposit money banks and financial institutions, on any type of account to be accounted for. As Non-oil earnings are expected to come in low, government revenue may buckle again in 2022.

What 2022 holds for Sub-nationals

Total spending of N26.59tr is planned ahead of 2022 at both Federal and State levels. Of this amount, the Federal Government plans to expend N17.13tr which is an equivalent of 64.4% of the combined budget. When compared to the 2021 budget when the F'G's proportion was slightly lower at 62.43%, we find that once again the FG is dominating the fiscal space contrary to the principle of Fiscal Subsidiarity. The idea of Fiscal Subsidiarity suggests that sustainable growth and development is more easily attained under a system where the federating units closest to a citizenry are accorded with more of the Fiscal powers and responsibilities.

A closer look at the data also shows that the Budget of south-western states is highest with planned spending of N2.55tr in 2022. Of this amount Lagos State alone accounts for N1.76tr, this is understandable being the commercial nerve center of the country. The South-South Region comes in second with a budget of N2.35tr, N200bn less than that of the South-West. This also represents a 4.3% increase in the region's spending plans. The North-Central states have a combined budget that amounts to N923bn, this is not just the lowest of all the 6 geo-political zones but lower than the budget of Lagos State alone. Capital expenditure in the region is capped at a little over N370bn while recurrent expenditure would be double the amount. This unambitious and misaligned spending plan further points to the need to focus more attention on the Fiscal operation of the Sub-Nationals (*see table 11*).

Table 11: Planned Spending for 2022 at the Level of the Subnational

BUDGET FOR STATES AND REGIONS

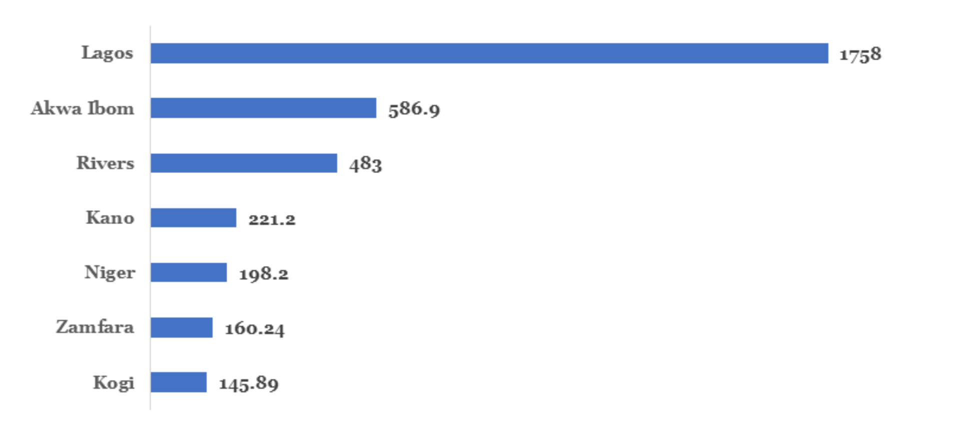
Zones	2022 (N'bn)	2022 ($'bn)	2021 (N'bn)	2021 ($'bn)	Cap Exp (N'bn)	Rec. Exp (N'bn)
South-East	1003	2.6	890.70	2.2	650.88	350.85
South-West	2555.28	965.6	2297.73	1059.0	1350.68	1086.11
South-South	2350	2.4	2289	2.2	1327.43	988.67
North-East	1097.73	451.0	970.66	449.1	578.46	518.99
North Central	923	2.0	850.18	1.9	373.72	548.28
North-West	1537.91	751.5	1389.3	733.8	967.75	568.40
South	5908.29	7.9	5477.56	7.5	3328.96	2425.64
North	3558.64	452.6	3210.15	430.1	1919.93	1635.67
36 State Governments	9466.93	20.9	8687.71	20.2	5248.9	4061.31
Federal Govt	17127	818.9	14440	714.8	5467.4	6909.85
Federal and State Budgets	26593.8	32.5	23127.71	32.4	10716.3	10971.15
Federal Budget (as a percentage of the total planned spending)	64.4		62.43		51	63.7
Ratio of Federal-State Budget	1.55		1.6		1.93	1.58

Source: Budget Office of the Federation, Proshare Research

The disparity in the 2022 Budgets of States

A look at the 2022 budgets of the sub-nationals presents an interesting pattern. Lagos state's Budget in 2022 in N1.76tr, Akwa Ibom state which has the next highest budget plans to spend of N586.9tr. The Rivers state budget for the next fiscal amounts to N483tr. The combined budgets of Kano and Niger states is N419tr which is less than that of Rivers State. The disparity between the budget of Lagos and that of Kogi state is considerable. Lagos' planned spending is about 12 times the size of that of Kogi. And while Lagos being the Nerve center of the country not only generates more in terms of IGR but also requires much greater investment in new infrastructure, the investment in most other states is too little to support ambitious growth strategies (*see chart 9*).

Chart 9: ***Comparing the 2022 Budgets of Selected Sub-nationals (N'tr)***



Source: Budget Office of the Federation, Proshare Research

Structural Policies and programs

Infraco & NIFC

The N15tr Infrastructure Company (Infraco) set up to bridge the nation's infrastructure gap became operational in the third quarter of 2021. According to the world bank, the country needs N36tr annually to close its infrastructure gap for the next 30 years. With a seed capital of 1tr jointly contributed by the CBN, the NSIA, and the AfDB, Infraco is expected to bring about private sector involvement to improve Nigeria's infrastructure. Also, the 24-hour Nigerian International Financial Centre (NIFC) is expected to act as an international gateway for capital and investment. The NIFC would offer high-return-yielding investment opportunities in Nigeria to the world.

Electricity value chain

The US$2.3bn Presidential Power Initiative (formerly the Nigerian Electrification Roadmap) which was launched in July 2019, was meant to see German company, Siemens AG, provide 25,000 megawatts (MW). However, two years after, the first phase of the project which should have brought the electricity grid to 7,000MW by the end of 2021 has yet to kick in. Nigeria's electricity value chain is characterized by a power generation transmission mismatch. Despite the country's more than 8,000MW of operational power-producing capacity, only an average of 4,500MW is received by end-users. World Bank stated in a recent report that Africa's largest economy had the largest number of people without access to electricity in the world and that electricity subsidy benefited mainly richer households. Only 22% of the poorest households have access to electricity, while 82% of the richest can access power.

Aviation: Concession programs

The Aviation sector Roadmap of the Federal government is expected to see the four major commercial airports -Lagos, Port-Harcourt, Abuja, and Kano Airports operate more efficiently and profitably through a concession arrangement. The concession program's Request for Qualification stage (RFQ) was completed in October, while the Request for Proposal (RFP) is expected before the end of the year. The concession program is expected to upgrade Airport facilities bringing them to the level of international Aviation hubs.

Ports: E-call-up system

Cargo clearing logistics have continued to constitute a significant impediment to the conduct of business in Nigeria. Despite the introduction of the e-call up system (Eto) – which was meant to reduce the congestion along the port corridor by scheduling the movement of trucks, port operators complain that the process is being sabotaged and that the presence of presidential and state government task forces have not helped matters. Cargo clearing logistics e call up system, Insecurity, Infrastructural deficit and Infraco to the rescue.

Insecurity

Insecurity has taken a toll on the Nigerian economy; the country's dire security situation took another dimension with the advent of bandits and kidnappers in the North-West, posing a major threat to the livelihood of farmers. Farmers' and herders' crises and pockets of restiveness in other parts of the country also disincline investors from considering investing in the country. This also affects the sovereign rating of the country (*see illustration 27 below*).

***Illustration 27:* A reflection of the Business Environment in Nigeria 2021**

BUSINESS ENVIRONMENT IN NIGERIA 2021

Country	Nigeria	Ghana	South Africa
Cost to export, document compliance (US$)	250	155	55
Logistics performance index: Competence and quality of logistics (1=low to 5=high)	2.4	2.51	3.19
Logistics performance index: Efficiency of customs clearance process (1=low to 5=high)	1.97	2.45	3.17
Time to export, document compliance (hours)	119	89.3	68

Source: World Bank, Proshare Research

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Monetary and Development Finance

CBN Naira 4 Dollar Scheme, Devaluation of the Naira, CBN Stoppage of Sale of FX to BDC & SWAP deal with Yuan

The Interest rate remained at 11.5% throughout the year, under the CBN's centrist policy stance. As an alternative, the CBN adopted Heterodox Monetary Policy Broad Money Supply (M2) increased by N540.31 billion (1.41 percent) from N38,218.83 billion in March 2021 to N38,759.14 billion in June 2021. The growth in M2 was mainly driven by the expansion in the Net Foreign Assets (NFA) and Net Domestic Credit (NDC). Net Foreign Assets increased by 8.42 percent (N566.26 billion) from N6,725.99 billion in March 2021 to N7,292.25 billion in June 2021. Similarly, Net Domestic Credit (NDC) rose by 2.19 percent (N950.48 billion) from N43,435.08 billion in March 2021 to N44,385.56 billion in June 2021. The development in NDC was due to the expansions of Credit to Private Sector during the period under review. Credit to Private Sector increased by 3.81 percent (N1,197.27 billion) from N31,440.91 billion in March 2021 to N32,638.18billion in June 2021. Net Credit to Government on the other hand decreased by 2.06 percent (N246.80 billion) from N11,994.17 billion in March 2021 to N11,747.37 billion in June 2021. When compared to the level at the end of the second quarter of 2020, the broad money supply expanded by N6,307.74 billion (19.44 percent) in June 2021.

On the development financing front, the CBN's Interventions continued largely in manufacturing/industries, agriculture, energy/infrastructure, healthcare, and Micro, Small, and Medium Enterprises (MSMEs). Under the Targeted Credit Facility, the Bank has disbursed a total of N363.49 bn to 766,719 beneficiaries, comprising 638,070 households and 128, 649 small businesses. Under its Agribusiness Small and Medium Enterprise Investment Scheme (AgSMEIS), the Bank has released N134.63 bn to 37,571 entrepreneurs.

Between September and October 2021, under the Anchor Borrowers' Programme (ABP), the Bank disbursed N43.19 bn to support the cultivation of over 250,000 hectares of maize, sorghum, soya beans, and rice during the 2021 dry season; and N5.88 bn to finance six (6) large-scale agricultural projects under the Commercial Agriculture Credit Scheme (CACS). Taken together, the Bank has disbursed the total sum of N864 bn to 4.1 million farmers, cultivating 5.02 million hectares. The bank also disbursed the sum of N41.2 bn for the commencement of the brown revolution, a large-scale wheat program to wean us off imports by 35 % in the first year.

Similarly, the Bank released the sum of N261.92 bn for 42 additional projects under the N1 tr manufacturing intervention. Cumulatively, the bank has disbursed the sum of N1.08 tr under this Scheme. As part of its effort to support the resilience of the healthcare sector, the Bank disbursed N5.39 bn to Nine (9) healthcare projects under the Healthcare Sector Intervention Facility (HSIF). The Bank has also cumulatively disbursed the sum of N108.65 bn to hospitals and the pharmaceutical industry. 54 of the 117 projects funded are for hospital services. The committee was gratified that the funding under Health the sector has resulted in the establishment of two(2) new Cancer Centres, over 59 MRI and more than 42 CT Scan Centers in Nigeria, within the last 18 months To further promote entrepreneurship development among Nigerian youth, the Bank recently approved the implementation of the Tertiary Institutions Entrepreneurship Scheme (TIES). The Scheme is designed to create a paradigm shift among undergraduates and graduates of tertiary institutions in Nigeria, from white-collar jobs towards entrepreneurship development. The guidelines for the implementation of the Schemeweres recently published, as the Bank of Industry (BOI) is presently partnering with the Bank for the pilot implementation phase.

Under the National Mass Metering Programme (NMMP), N8.69 bn was disbursed to four (4) Distribution Companies (DisCos) under the scheme's Phase-0. The sum of N47.66 bn has been disbursed so far for the acquisition of 858,026 meters. Also, in furtherance of its intervention in the energy sector, the Bank released N27.03 bn to power sector players under the Nigeria Bulk Electricity Trading Payment Assurance Facility (NBET-PAF). This is in addition to the N37.69 bn disbursed to eight (8) Distribution Companies (DisCos) recently, under the Nigeria Electricity Market Stabilisation Facility (NEMSF-2).

The Bank has disbursed the sum of N39.2bn under the Nigerian gas expansion program to promote the migration to compressed natural gas (CNG) as the preferred fuel for transportation and liquefied petroleum gas (LPG) as the preferred cooking fuel. Furthermore, the Bank recently introduced the 100 for 100 Policy on Production and Productivity (PPP), designed to create the flow of finance and investments to enterprises with the potential to kick-start a sustainable economic growth trajectory, accelerate structural transformation, promote diversification, and improve productivity in the country. It is geared to support private sector companies to reduce certain imports, increase non-oil exports, and improve the FX-generating capacity of the economy. The Bank will select and finance 100 such companies at 100-day intervals, in line with detailed selection criteria as contained in the guidelines and roll this over for another 100 companies for the next 100 days.

The Targeted Credit Facility (TCF) was particularly highlighted by the Committee for its contribution to alleviating poverty at the grassroots. The Committee thus urged the Bank to continue its support through the TCF to ensure that more people benefit from this program. Meanwhile, in a bid to increase liquidity in the fx market the CBN through a circular issued on the 5th of March introduced the Naira 4 Dollar Scheme which was meant to see International Money Transfer Operators (IMTO) pay an additional N5 for every US$1 remitted to the country the scheme was initially supposed to last till May 8, 2021. The policy which was later extended till further notice is calculated at reducing the effective cost of sending remittances, increasing their flow, and thereby creating liquidity in the fx market. The average cost of sending US$200 worth of remittance to Nigeria from the US was about 4.7%, citing studies the CBN governor claimed that a 1% reduction in the cost of remittances can lead to a significant rise in remittances (*see illustration 28 below*).

Illustration 28:* *Central Bank of Nigeria Interventions in 2021.

CBN INTERVENTIONS IN 2021

	N'bn	%	Repayment	Beneficiaries
Anchor Borrowers' Programme	788.03	18.66	235.26	3793529 farmers
N200bn Commercial Agricultural CreditScheme	708.39	16.78	483.3	657 projects
Nigeria Electricity Market Stabiliation Facility(NEMSF 2)	145.66	3.45	—	38 projects

	N'bn	%	Repayment	Beneficiaries
Nigeria Bulk Electricity Trading Payment Assurance Facility	973.33	23.05	—	—
National Mass Metering Programme (NMMP)	41.06	0.97	—	—
Manufacturing Sector (CFMS)	277.37	6.57	436.5	—
Differentiated Cash Reserve ratio (RSSF-DCRR)	—	—	27.45	—
Health Care Sector Intervention Fund(HSIF)	102.7	2.43	8.29	—

Summary	N'bn	%
Agriculture	1496	13.74
Energy/Infrastructure	1160.05	27.48
MSMEs	477.78	11.32
Health	102.7	2.43

Source: CBN, Proshare Research

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***Table 12:* CBN Circulars Issued in 2021**

CBN CIRCULARS ISSUED IN 2021

	TOPIC
18th November	Agricultural Credit Guarantee Scheme - 2021
5th November	100 for 100 Policy on Production and Productivity (100 for 100 PPP)
5th November	Revised Anchor Borrowers' Programme Guidelines
25th October	Regulatory Guidelines on the eNAIRA

	TOPIC
20th October	Guidelines for the Implementation of Tertiary Institutions Entrepreneurship Scheme (TIES)
12th October	Revised Regulatory Framework For Bank Verification Number (BVN) Operations And Watch-List For The Nigerian Banking Industry
11th October	Guidelines On The Operations of Pan African Payments And Settlement System In Nigeria
2nd September	BASEL III Implementation by Deposit Money Banks in Nigeria
19th August	Cessation of Non-Permissible Activities by Microfinance Banks
3rd August	Guidelines for Licensing and Regulation of Payments Service Holding Companies in Nigeria
29th July	BDC Refunds
28th July	Teller Points at Bank Branches for the Sale of FX to Retail Customers
16th July	Sugar Importation in Nigeria
9th July	Framework and Guidelines on Mobile Money Services in Nigeria
8th July	Supervisory Framework for Payment Service Banks
5th May	Reintroduction Of CBN's "Naira For Dollar Scheme"

	TOPIC
20th April	The Rejection of Old/Lower Denomination of United States Dollar by DMBs/FOREX Dealers
16th April	Guidelines for the Conduct of Repurchase Transactions under CBN Standing Facilities
9th April	Commencement of enrolment of All DFIs, MFBs, PMBs and FCs on the CRMS
6th March	Introduction of the CBN's "Naira 4 Dollar Scheme" for Diaspora Remittances
3rd March	Re: Regulatory Forbearance for the Restructuring of Credit Facilities of Other Financial Institutions Impacted by Covid-19
17th February	Circular on the Regulatory Framework on Open Banking in Nigeria
10th February	Letter to Banks, OFIs and PSPs: Acceptance of Machine-Readable Convention Travel Document (MRCTD) and Refugee Identification Card as Means of Identification
5th February	Letter to All Deposit Money Banks, Non-Financial Financial Institutions and Other Financial Institutions
26th January	Appointment Of Pre-shipment Inspection Agents (PIAs) And Monitoring And Evaluation Agents(MEAs) For Non-Oil Exports
22nd January	Modalities For Payout Of Disapora Remittances

	TOPIC
22nd January	RE: Circular on the Revised Nigeria Cheque Standard (NCS) and Nigeria Cheque Printers Accreditation Scheme (NICPAS)
18th January	Circular on Issuance of the Framework for Regulatory Sandbox Operations
13th January	Framework for Quick Response (QR) Code Payments in Nigeria
13th January	Issuance of the Framework for Regulatory Sandbox Operations

Source: CBN, Proshare Research

Review Market

Fixed Income Market

Global

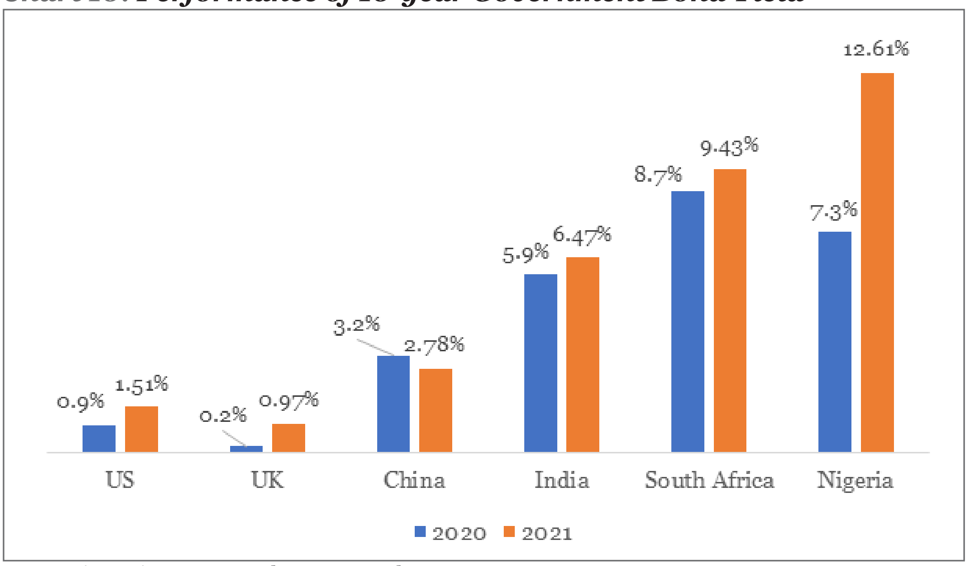
It wasn't a smooth sail for the fixed income market, particularly for large economies like the US and EU. Bond yields rose and fell reacting to mixed investor sentiment over the year. The faster-than-expected reopening of the economy from COVID-19 shutdowns early in the year led to a surge in yields during the first quarter, this was followed by a plunge in the half of the year as virus cases rebounded on the back of the discovery of the Delta variant.

Two significant global themes dominated the fixed income market: the rise in US bond yields, which stemmed from higher inflation fears, and developments related to the pandemic. There was jostling between reducing or tightening COVID restrictions around the world, the appearance of new variants — Delta variant in H1 2021 and now Omicron – and their impact on the global economic recovery following the pandemic.
Despite the uncertainties in the year, bonds yield advanced upwards for major economies, reflecting positive investor sentiment towards global economic recovery, moving investments towards risky asset classes.

Emerging-market bonds were supposed to be dragged down this year as central banks moved toward withdrawing stimulus. Instead, the best-performing global debt was all from developing nations. Sovereign bonds issued by Nigeria, South Africa, and India topped the rankings of the debt capital markets around the world in 2021.

Bond yields of major economies performed better in 2021 against 2020 except China's 10-year bond which fell year-on-year (Y-on-Y) by -13.13%. UK's 10-year bond yield recorded the highest performance with yields advancing by +385%. For Nigeria, 10-year bond yields edged Y-on-Y up by +72.74% (*see chart 10 below*).

Chart 10: Performance of 10-year Government Bond Yield



Source: investing.com, Proshare Research

As the Federal Reserve and the Bank of England intend to hike rates, other major economies' central banks are expected to follow suit, creating possible opportunities for fixed income investors seeking income. As the Fed's expansionary monetary policies wane in 2022, yields are anticipated to rise with increasing volatility. Norway and New Zealand have raised rates while Canada ended its bond-buying program, the Fed has also dialed back on its monthly bond purchases, these aggressive policy moves are in response to rising inflation.

The story will be different in China, where the Peoples Bank of China (PBoC) reduced the reserve ratio requirement by 0.5% and the loan prime rate at the end of 2021, causing yields to fall to likely fall further in 2022.

Domestic Market

System liquidity was a major market driver in the performance of the fixed income, majorly in the money market space, and maturity of fixed income securities accounts for a major component that drives liquidity. Corporates were expected to take advantage of the low yield environment to raise debt instruments, as access to funds was expected to be cheaper in 2021. The reverse was the case as the number of quoted commercial dipped Y-on-Y while average discount rates rose to double digits in the period, making short-term borrowing expensive for corporates. The total quoted commercial paper as of 7 January 2022 was N224.25bn against N390.7bn quoted on FMDQ as of 22 December 2020. Average discount rates rose from 5.41% to 12.32% indicating a Y-on-Y rise of +127.68% on rates. 2022 seems to be the year of rate hikes as a harbinger of economic recovery and a tool to control inflation, access to funds is likely to be more expensive both at the domestic and international debt markets. Specific to Nigeria, we may see the crowding-out effect as debt stock is expected to rise Y-on-Y by +17.78% to N46.63trn according to the projections of the National Development Plan (NDP) 2021 – 2025. Also, the Sovereign risk may feed into the cost of borrowing at the international debt market as the World Bank recently alerted that the Nation's debt is vulnerable and costly.

FGN Bonds listed on the FMDQ maturing in 2022 amount to N1.04trn, this includes Promissory Notes and the USUS$300m Diaspora Bond maturing in June 2022.

The imminent hike in rates by major economies may trigger flight out of the Nigerian market, however, we expect a corresponding and continuous rise in coupon rates as an incentive to remain in the Nigerian market. With declining inflation also, negative real yields may start to decline. Hike in rates translates to less cheap funds available for investment, thereby we will likely see a continuous decline in private companies accessing the debt capital market.

Locally, an increased fiscal deficit led to increased borrowing to finance the budget deficit. In 2021 (January to September), the Federal Government of Nigeria (FGN) added N5.09trn to FY 2020 figures, as of Q3 2021, total debt stock stood at N38.00trn (*see table 13 below*).

Table 13: ***Public Debt Stock as of September 2021***

BREAKDOWN OF PUBLIC DEBT AS OF SEPTEMBER 2021

	Value (N'bn)		Share of Total Debt (%)
Domestic Debt		22,432.63	59.03%
FGN Bonds	13,463.34		35.43%
NT Bills	3,493.22		9.19%
NT Bonds	76.98		0.20%
FGN Savings Bond	16.79		0.04%
FGN Sukuk	362.56		0.95%
Green Bond	25.69		0.07%
Promissory Notes	795.27		2.09%
Sub National Debt	4,198.78		11.05%
External Debt		15,573.00	40.98%
Multilateral Loans	7,501.50		19.74%
Bilateral Loans	1,804.90		4.75%
Commercial Loans	6,019.00		15.84%
Promissory Notes	247.60		0.65%
Total Debt		38,004.60	

Source: DMO, Proshare Research

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Average marginal rates on bonds offered by DMO advanced from 8.56%in its January issue to 12.68% for bonds issued in December. Average Yields on Nigerian Treasury bills issued by the CBN also advanced from 1.1% in January to 3.7% in December majorly led by the increase in the stop rates for the 364-Day bills which rose consistently in the first half of the year, stop rates began to tilt downward in the second half of the year. The rise in yields was largely driven by the government's expanded debt program and the need to attract investors and CBN's various market strategies. Although we saw rising yields in the year, adjusted against inflation yields were negative, however in 2022, real negative rates of return will likely decline as inflation rate falls and interest rate rises.

In September, the FGN raised USUS$4bn via a Eurobond issue which was oversubscribed by more than four times the amount offered. The issue was able to attract a demand of USUS$12.2 bn which enabled the DMO to raise the value of its initial offering by USUS$1 bn. The instrument was issued in three tranches. USUS$1.25bn for seven years at a yield of 6.125%, 12-year notes of USUS$1.5bn at 7.375%, and a 30-year tenor of US1.25bn sold at 8.25%.

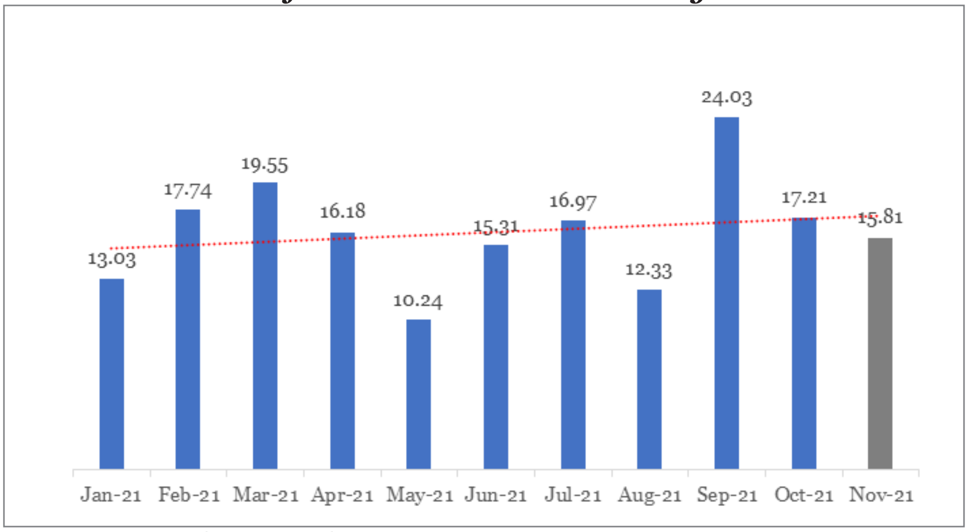
Towards the tail end of 2021, the FGN also raised N250bn Sovereign Sukuk which attracted a subscription level of over N865bn which represents an oversubscription level of 246%. The DMO affirmed that the proceed of the N250bn Sovereign Sukuk will be used to finance the rehabilitation and reconstruction of road projects across the six geopolitical zones and the Federal Capital Territory.

Activities on FMDQ

As the COVID-19 induced shocks gradually faded, the turnover of the fixed income and currency (FIC) market for 2021 was lower than in the previous year. Between January – November 2021, turnover of the FIC stood at N178.4trn against N195.42trn in the period in 2020 indicating a Y-on-Y fall of -8.71%. The Foreign Exchange (FX) market was the major contributor to the FIC market in 2021.

Turnover was at its highest in September and had the highest month-on-month (M-on-M) growth rate, recording N24.03trn in turnover indicating an M-on-M uptick of +94.89%. The improved performance in the month was on the back of a +109.44% rise in OMO and CBN's Special Bills market activity. The FIC market had its lowest performance in May recording N10.24trn in turnover and a -36.71% M-on-M decline supported by a -46.65% dip in OMO Bills trade (*see chart 11 below*).

Chart 11: Turnover of the Fixed Income & Currency Market Jan – Nov 2021

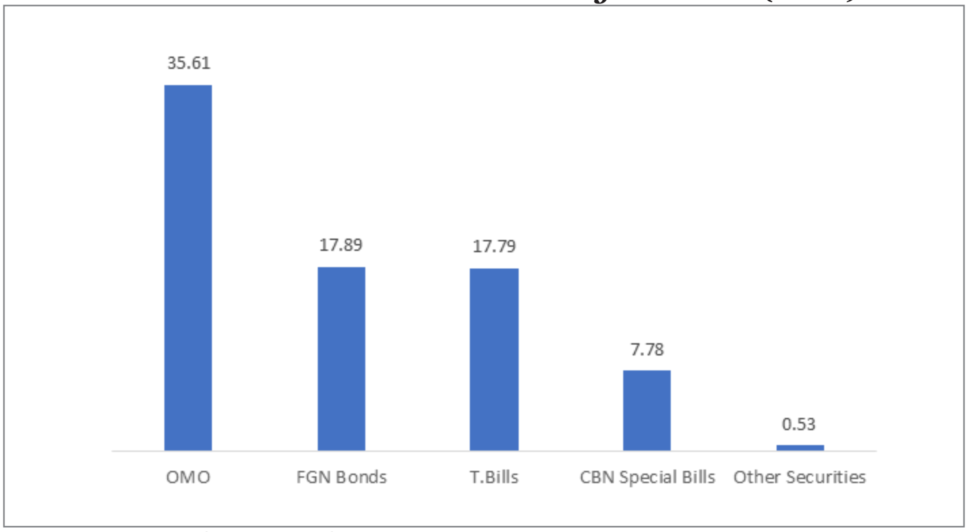


Source: FMDQ, Proshare Research

Secondary Market

At the secondary market, OMO Bills had the highest turnover in the fixed income market recording N35.61trn in turnover, this accounted for 45.04% of the fixed income secondary market activity. The CBN increased stop rates in the year, average stop rates for all tenors were 8.00% from 7.69% in 2020 indicating a Y-on-Y rise of +4.03%. FGN Bonds and T-bills followed closely with turnover at N17.89trn and N17.89trn respectively. The rise in OMO rates was influenced by CBN's liquidity measures management and as an incentive for foreign investors (*see chart 12 below*).

Chart 12: Fixed Income Market Turnover by Securities (N'trn)



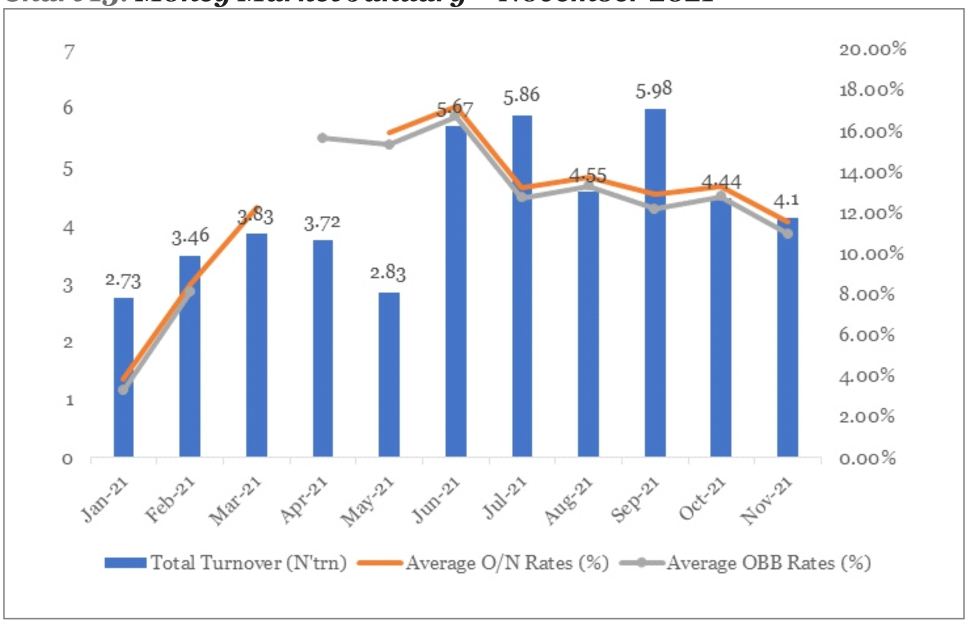
Source: FMDQ, Proshare Research

Money Market

The turnover of the money market for the year (January – November) was N47.17trn which represents 26.44% of the turnover of the FIC market. Turnover in the money market rose Y-on-Y by +16.07% from N40.64trn in the same period in 2020. The market saw the highest rally in September recording N5.98trn in turnover while it was at its lowest levels in Money with a market turnover of N2.83trn.

Open Buy-Back (OBB) and Over Night (OVN) started the year in single digits but ended the year in double digits on the back of higher outflows which dropped the elevated liquidity we saw at the beginning of the year. Although rates picked in June, they flattened out towards the end of the year (*see chart 13 below*).

Chart 13: Money Market January – November 2021



Source: FMDQ, Proshare Research

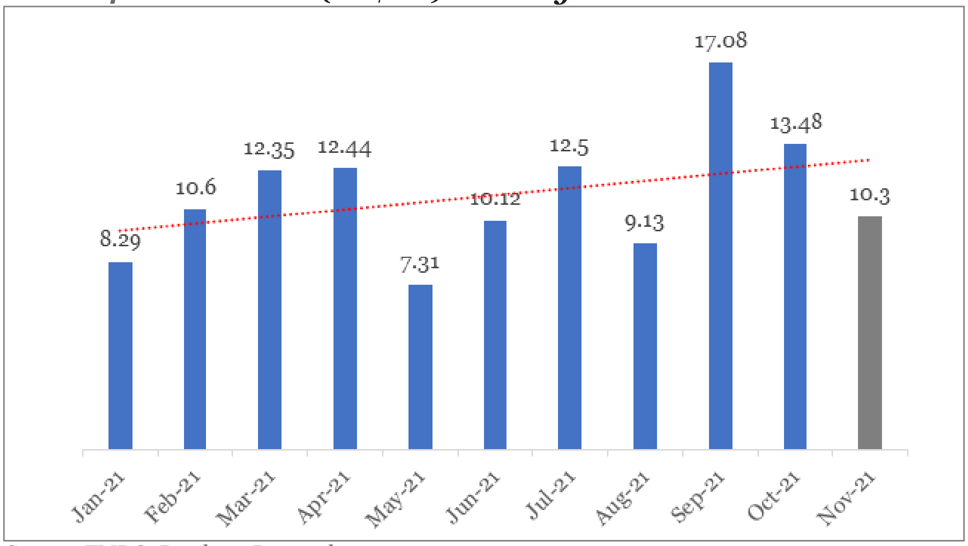
External Reserve & Exchange Rate

The USUS$4bn Eurobond inflow and USUS$3.35bn Special Drawing Rights (SDRs) from the International Monetary Fund (IMF) in the year in addition to stronger oil price boosted the external reserves. The FX reserve rose Y-on-Y by +14.55% which is US5.14bn higher than the corresponding period of the previous year. At the end of the year, the external reserve stood at USUS$40.52bn against USUS$35.37bn at the end of 2020 which can cover imports for about 9months.

Currency pressures continued both at the parallel and official markets of FX supply shortages. The CBN discontinued the sale of FX to Bureaux de Change (BDC) operators, this decision was made in a bid to the CBN's mandate of safeguarding the value of the Naira, ensuring financial stability, and shoring external reserves.

On the FMDQ, FX turnover between January and November 2021 dipped Y-on-Y by -23.00% to USUS$123.6bn from USUS$160.52bn in the same period in 2020. September 2021 had the highest turnover of USUS$17.08bn and the highest M-on-M growth of +87.08%, this was supported by +68.61% and +108.02% M-on-M increase in FX Spot and FX Derivatives turnover respectively. The month of May recorded the lowest turnover and highest M-on-M decline of -41.24% in turnover, on the back of a dip both on the FX Spot and FX Derivatives turnover, both fell M-on-M by -14.87% and -58.43% respectively (*see chart 14 below*).

Chart 14: FX Turnover (US$'bn) January – November 2021

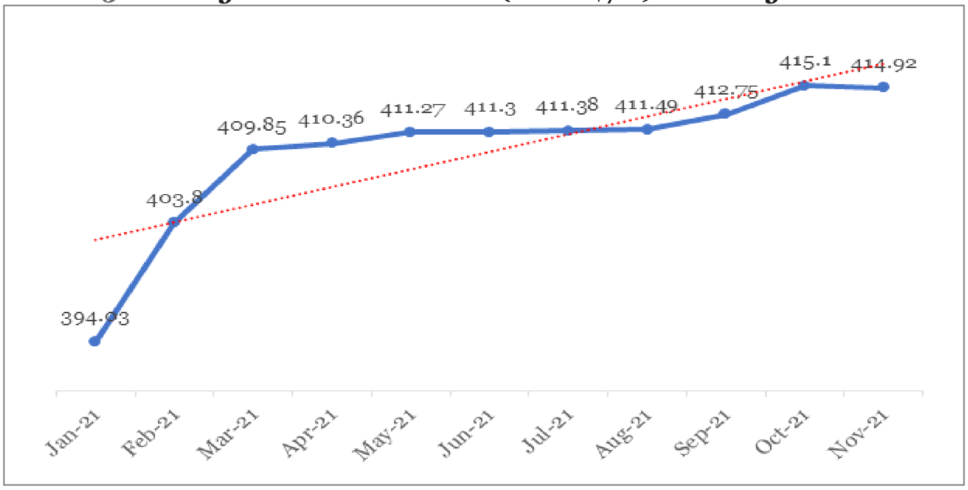


Source: FMDQ, Proshare Research

The Naira at the I & E FX window averaged at N409.66 against the US Dollar, signifying a Y-on-Y depreciation of +7.94% from the average of N379.53 to the US Dollar (*see chart 15 below*). Demand pressure induced by the previous year's economic shock has continued to affect the value of the Naira at the official window. Vice President Yemi Osinbajo proposed a market-reflective rate to attract foreign investment and increase FOREX inflows into the economy, but some analysts interpreted this as a depreciation of the domestic currency.

Proshare Analysts believe that the CBN should examine the FX restriction list because the goods on the list are intermediate products, which means that an increase in the price of one will lead to a bigger rise in the price of others. Wheat is an example of such a commodity. We are also not opposed to the devaluation of the local tender, as this policy move will reduce the trade deficit by making exports cheaper. As an import-dependent country that relies heavily on oil and other basic resources with little added value, such a policy move would be useless. Diversifying FX revenue before the depreciation of the Naira, on the other hand, will yield a better outcome and enhance Naira's position.

Chart 15: Average I & E FX Window (USUS$/N) January – November 2021



Source: FMDQ, Proshare Research

The projected increase in oil prices, as well as the withdrawal of the PMS subsidy, will have a significant impact on the nation's foreign reserve position. However, with the proposed transport grant of N5000 between 30 – 40 million poor Nigerians and the CBN's continued FX management, the external reserves will likely remain at current levels or see a slight appreciation. The N6.39trn budget deficit for 2022 the government intends to raise N2.57trn each both at the domestic market and international market and N1.16trn from multilateral and bilateral institutions to finance the budget deficit.

> ***"Diversifying FX revenue before the depreciation of the Naira, on the other hand, will yield a better outcome and enhance Naira's position."***

The Equity Markets in 2021

The global economy continues its recovery from the COVID-induced recession in 2020 as the breakthrough with Covid-19 vaccines that 2021 would be a year of recovery; however, due to unstable vaccination rates, growth rates vary across regions as new mutations of the virus emerged and hampered the positive outlook for recovery in some advanced economies. The world begins to view COVID-19 as endemic, existing policies shaping the global growth paradigm will start to shift, impacting markets in the process with higher expectations for positive performance in the markets.

Cyclical stocks in the hospitality, Oil, gas, tourism, transport, Construction/Real Estate, and retail sectors that were hardest hit in 2020 recorded some level of rebound as the economy opened further.

US Markets

The US equity markets recorded solid gains for the year on the backdrop of renewed economic activity and improved corporate earnings despite new strains of COVID-19 during the year. As vaccines and vaccination rates improved, one key trend that defined the performance of many stocks was a change in sentiment that led investors to look at different parts of the markets leading to a portfolio rebalancing. Tech stocks that benefited from the 2020 surge due to technological innovations that helped companies and individuals adapt to the ever-changing landscape of the COVID-19 pandemic recorded losses in 2021 (except for Google and Meta Platforms) while cyclical stocks performed better.

It was a year of quantitative tightening, alongside other fiscal and monetary adjustments on the international scene as the US Fed the central bank said it will accelerate the reduction of its monthly bond purchases. At a speech in August 2021, Fed Chair Jerome Powell said it "could be appropriate to start reducing the pace of asset purchases this year." Powell stated that the economy has met "substantial further progress" conditions, prompting the Fed to evaluate a taper.7 In the following press conference, he added that the tapering would likely conclude by the middle of 2022.

The markets saw some volatility at different stages of the tapering announcement, which we refer to as "Taper Tantrum" because rising yields can impact stock markets as more attractive yields compete with stocks for investors' money. However, despite all the concerns about the Federal Reserve reducing its asset purchases and allowing interest rates to rise, short-term rates remained exactly where they started the year while stocks moving to record highs in the final week of 2021 suggest that investors do not expect the significant negative impact of tapering on the markets in 2022.

NASDAQ +22.14%

The technology-laden Nasdaq Composite Index closed the year bullish with +22.14% from 12,888.28 index points in December 2020 to 15,741.56 index points in December 2021.

S & P 500 +27.23%

The S & P 500 closed the year with +27.23% from 3,756.07 index points in December 2020 to 4,778.73 index points in December 2021.

Dow Jones +18.73%

The Dow Jones Index closed the year up with +18.73% from 30,606.48 index points in December 2020 to 36,338.3 index points in December 2021.

Europe Markets

Since the first COVID case in Wuhan, China was announced in 2019, leading to a global pandemic, the markets have struggled to recover, and Europe is no exception. More recently, there have been setbacks as countries across the continent are dealing with the new Omicron variant of COVID-19, leading to renewed lockdowns and worries around rising energy costs. Inflation is rising, and specific industries are struggling with supply chain bottlenecks. The risks of hawkish central banks' decisions on rising inflation pressures and lingering concerns of the recent jump in global Omicron cases have limited gains in the stock markets so far. However, some markets have been more resilient than others.

In the first half of 2021, sectors linked closely to the health and state of the economy, like banks and industrials, performed better due to effective vaccine rollouts and the gradual easing of lockdown. In the second half of the year, investors turned to growth stocks in the technology, healthcare, and consumer goods sector.

DAX +15.79%

Germany struggled this year, too, as tightening restrictions and supply chain bottlenecks hindered the economy, causing higher fluctuations in operating performance for companies that depend highly on export from China like Siemens Energy AG, which slumped more than -24% in 2021. However, the benchmark DAX index closed the year up with +15.79% from 13,718.78 index points in December 2020 to 15,884.86 index points in December 2021. The positive performance resulted from investors' interest in growth stocks, especially in the technology sector.

CAC 40 +28.85%

The CAC 40 index in France recorded positive performance as it closed the year with +28.85% from 5551.41 index points in December 2020 to 7153.03 index points in December 2021 as hopes of an economic recovery boosted luxury stocks.

FTSE 100 +14.30%

In the United Kingdom in 2021, the FTSE 100 recorded a rebound in performance, being the second-worst performing index in 2020 with a decline of -14.41%.

The 'Footsie' impressively closed the year up with +14.30% from 6,460.52 index points in December 2020 to 7,384.54 index points in December 2021. Stocks were lifted through the year by economic optimism, as Covid-19 vaccine rollouts allowed economies to reopen thereby easing lockdowns across the UK. The index experienced pressure from rising Covid-19 cases of the new COVID-19 variant-omicron, worries around an energy crisis, inflation, supply chain problems, and more recently, new restrictions during the year; however, the upbeat performance shows that investors' shrugged off these concerns, with shares recovering from their tumble in November after the Omicron variant was discovered.

Asia Pacific Markets

The year 2021 was a bruising year for Asian markets as it underperformed this year compared to its European and American counterparts. The market performance was tapered by strict regulatory scrutiny from the US and China with a clampdown on tech companies, the downturn in the property market due to fallout of the property developer -Evergrande crisis which led to increased volatility in prices of its capital market instruments, both domestically and offshore.

Shanghai Composite Index +4.80%

China's economy had a strong start in 2021, driven by solid growth in exports but began to lose steam in the second half amid a series of regulatory clampdowns in the real estate, technology, and education sectors. The SSE Composite Index in Shanghai posted an underwhelming growth of +4.80% from 3,473.07 index points in December 2020 to 3,639.78 index points in December 2021.

The new US law requires that Chinese companies must provide proof that they are not controlled by their governments, requiring more disclosures from the auditors of Chinese companies, combined with pressure from Chinese regulators on companies with a lot of data to list in China instead, it appears the market investor sentiment for Chinese stocks has begun to wane. More decline may be on the way. In May, according to the U.S.-China Economic and Security Review Commission, there were 248 Chinese companies listed on U.S. exchanges with a total market cap of US$2.1 trillion. That value has fallen sharply, to approximately US$1.5 trillion, taking off US$600 billion.

The decline has left many American investors holding on to Chinese stocks hoping they will rebound, with investments unfortunately devalued by ongoing clampdowns and potential delisting. The US has moved to delist some Chinese companies such as Didi because it believed that the ride-sharing app company had too much data that made it a security risk. Other Chinese companies have prepared for possible delisting through secondary listing in Hong Kong.

However, Retail investors holding Chinese stocks that don't have a dual listing on Asian exchanges, or a path to such a listing, are in greatest danger amid 'a tug of war between the U.S. and Chinese regulators.

Nikkei 225 +4.91%

In Japan, the Nikkei 225 posted growth of +4.91% from 27,444.17 index points in December 2020 to 28,791.71 index points in December 2021. Despite showing signs of recovery from the pandemic, concerns over Omicron continue weighing on the Tokyo market as stock prices were also supported by a record stimulus announced by Prime Minister Fumio Kishida, who took office after his predecessor Yoshihide Suga resigned and increased vaccinations rates.

Ks11 +3.63%

The KS11 Index in South Korea closed the year up with +3.63% from 2,873.47 index points in December 2020 to 2,977.65 index points in December 2021.

Hang Seng -14.68%

The Hang Seng Tech Index, which tracks the 30 largest technology companies listed in the city of Hong Kong market was one of the worst-performing stock markets in 2021 as there has been a lot of pressure from China's regulatory crackdown, pressure on property, e-commerce, Ed-tech, and gaming stocks. The Hang Seng Index declined by -14.68% from 27,422.3 index points in December 2020 to 23,397.67 index points in December 2021.

A combination of U.S. delisting concerns and Beijing's regulatory crackdowns on Chinese companies in many sectors has weighed on the Hong Kong stock market, the outlook for 2022 remains uncertain.

Outlook for Global Markets

The year also came with tough challenges that affected the operating climate for several companies. At the fore, we saw how currency-induced inflationary pressures eroded profitability margins, while supply disruptions dragged sales volume, a flood of stimulus from central bankers and governments which started in the pandemic lifted markets through the year, along with optimism as economies reopened.

Though uncertainties regarding the possible impacts of the Omicron variant on the global economy's health remain, the global economy is expected to remain on the path of full recovery, albeit with slower momentum in 2022.

Nigeria – All Share Index

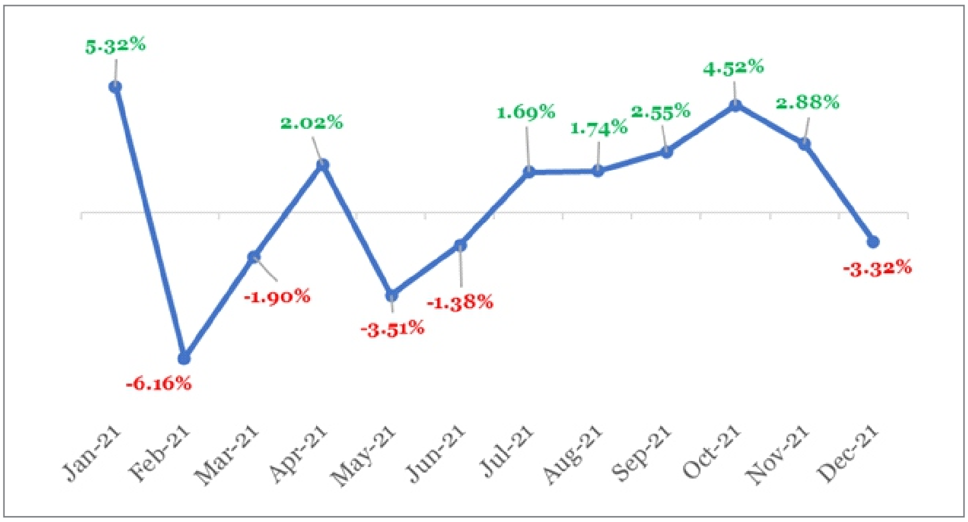
The Nigeria Bourse started 2021 on the backdrop of an impressive +50.03% return in 2020 as domestic participation on the market surged in demand for equities; however, as the economy recorded a gradual recovery in 2021, Nigeria's stock market recorded a slowdown in growth momentum with a decline in foreign portfolio participation, but other indicators remained positive as it sustained positive trajectory.

The NGX All Share Index closed the year positive with +6.07% YTD from 40,270.7 basis points on December 31st, 2020 to 42,716.4 points at the close of trading on December 31st, 2021. The market capitalization of the Nigerian Stock Exchange which represents the value of all companies listed on the exchange, gained N1.24rn (+5.89%) in 2020 to close at N22.29trn from N21.05trn recorded on the last trading day of 2021.

The equity market recorded mixed performance in H1 2021 with volatile sessions as investors shifted base to the fixed income markets given the significant rise in rates; thus, in February 2021, the bourse posted a loss of -6.16% at 39,799.89 points with a decline in foreign participation, losses were also recorded in March (-1.90%), April (-3.51%), June (-1.38%). A significant turnaround was recorded as the NGXASI turned bullish in July (+1.69) the bullish trend continued till November (+2.88%).

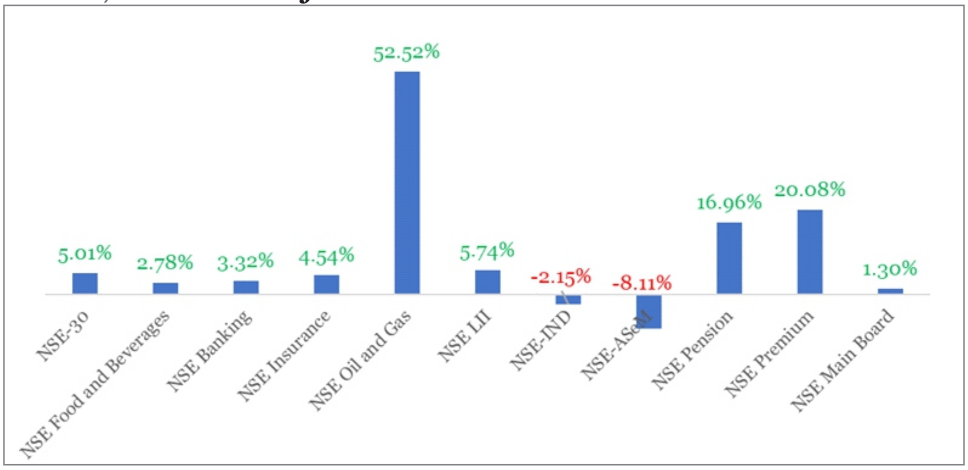
The rebound occurred as a result of the news of recovery in oil prices at the international market, the market performance was shaped by rising crude oil prices reflected in the Oil and Gas Sector (+52.52%), interest rate movements, improved liquidity leading to declining yields in the fixed income market especially in H2 2021 and better-than-expected 2021 corporate actions and quarterly earnings of listed companies (*see chart 16 & 17*).

Chart 16: ***NSEASI Index Yield Jan. 2021-Dec. 2021***



Source: NGX, Proshare Markets

Chart 17: ***Sectoral Performance YTD 2021***



Source: NGX, Proshare Markets

Other events that shaped market direction included:

- The successful demutualization and listing of NGX Group Plc on the Main Board of Nigerian Exchange Limited.

- MTN Nigeria Communications Plc announced an offer to sell up to 575 million ordinary shares in MTN Nigeria held by MTN International (Mauritius) Limited, by way of a bookbuild to qualified investors (Institutional Offer) and a fixed price for retail investors.

- Delisting of seven companies from the Nigerian Exchange Limited (NGX), up from five delistings in 2020. The delisted companies include 11 Plc, Evans Medical Plc, Nigeria-German Chemicals Plc, Roads Nigeria Plc, Unic Diversified Holdings Plc, Studio Press Nigeria Plc, Union Diagnostic and Clinical Services Plc. Four out of the delisted companies were excluded by the NGX due to nonconformity to its regulations, and three companies voluntarily delisted.

- 11 Plc, formerly Mobil Plc, **voluntarily** delisted on May 7, 2021, after 43 years of trading on the Nigerian Stock Exchange and informed its minority shareholders that they could still retain their shares as the company was not willing to forcefully acquire their shares.

- The exchange witnessed four listings, **Briclinks Africa Plc**, Guaranty Trust Holding Company Plc (GT HoldCo), Nigerian Exchange Group, and Ronchess Global Resources Plc were the listed companies. In June, NGX **had listed** Guaranty Trust Holding Company Plc (GT HoldCo) after delisting Guaranty Trust Bank (GTBank) from its trading platform.

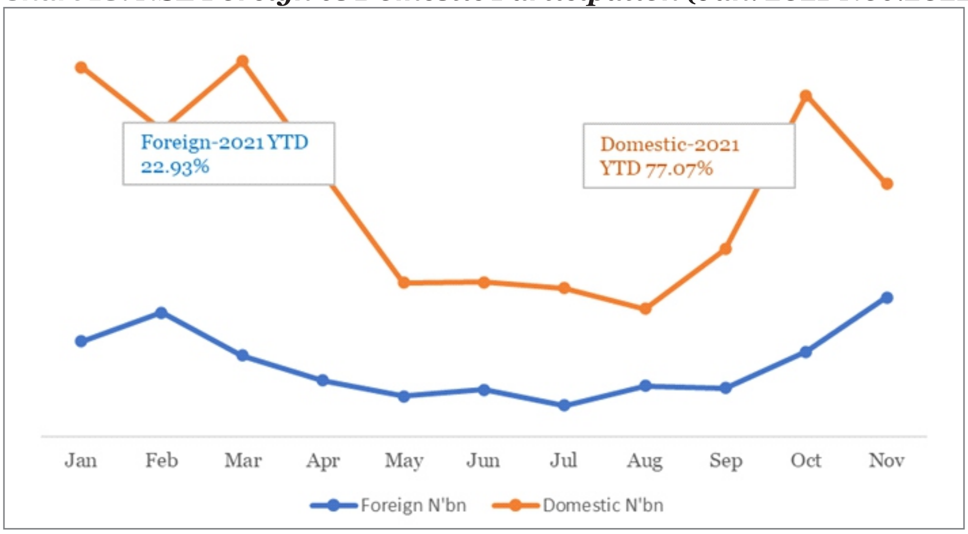
- On November 22, 2021, Honeywell Group (HGL) and Flour Mills of Nigeria (FMN) announced that they had signed an agreement for the proposed merger of FMN through its affiliates and Honeywell Flour Mills Plc, a portfolio company of Honeywell Group. HGL is expected to dispose of a 71.69% stake in HFMP to FMN at a total enterprise value of NGN80 billion.

Overview of Domestic and Foreign Portfolio Participation in 2021

Domestic participation on the bourse started the year on a high with 79.56% but started to decline at the end of Q1 2021. All Share Index also declined same period, both metrics saw a reversal close to the end of the year as domestic participation improved in Q3. It proves that domestic participation had a huge impact on the NGXASI performance. Year-to-Date Domestic participation on the bourse grew to 77.07% in 2021 with N1.24trn compared to the performance of 65.28% in 2020.

On the other hand, foreign participation declined to 22.93% YTD with N399.18bn in 2021 compared to 34.72% with N659.28bn in 2020. Weak foreign participation in the market due to weak macro fundamentals sent foreign investors on a flight for safety. Going forward, we expect the domestic investors to continue to dominate activities on the domestic bourse as foreign investors remain cautious. (*see chart 18 below*).

Chart 18:* *NSE Foreign vs Domestic Participation (Jan. 2021-Nov.2021)



Source: NGX, Proshare Markets

Toni and Gote Index

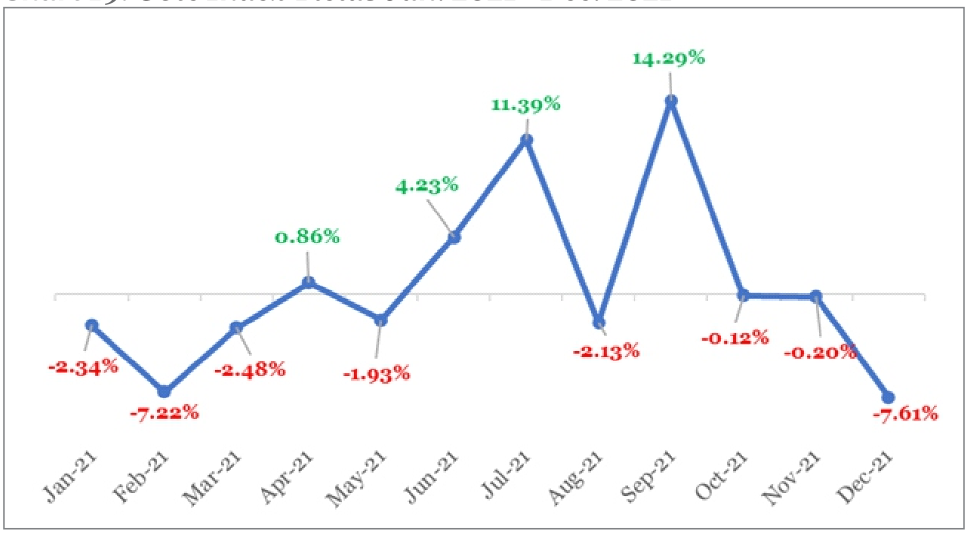
This section aims to examine the performance of Proshare's index, which consists of the Gote index and Toni's index in the year 2021. Toni and Gote have stocks with large Market Cap, which can suggest the market's overall sentiment. Toni's index consists of **AFRIPRUD**, **TRANSCORP**, **UBA**, and **UBCAP**, while Gote's index consists of **DANGCEM**, **DANGSUGAR**, and **NASCON**.

Gote Index

The index opened the year on a positive note with a decline of -2.34% in January 2021 following significant declines in February, March, and May with -7.22%, -2.48%, and -1.93% respectively. The month of July and September notably recorded the highest growth during the year; this positive performance was supported by investors' positive sentiment, which triggered buy-interests in the shares of the company after the company announced its proposed plans to repurchase 170,003,074 ordinary fully paid-up shares of 50kobo each from shareholders in the second tranche of its share buyback program. The index, however, closed the year positive with +4.53%.

Furthermore, Dangote Cement Plc is a large-cap stock within the index that served as the major factor contributing to the growth or decline of the Gote Index. Dangote cement delivered strong Q3 2021 results with a +49.1% increase in PBT from N271.96bn it posted in Q3 2020 to N405.49bn in Q3 2021 (*see chart 19 below*).

***Chart 19:* Gote Index Yields Jan. 2021 - Dec. 2021**



Source: NGX, Proshare Markets

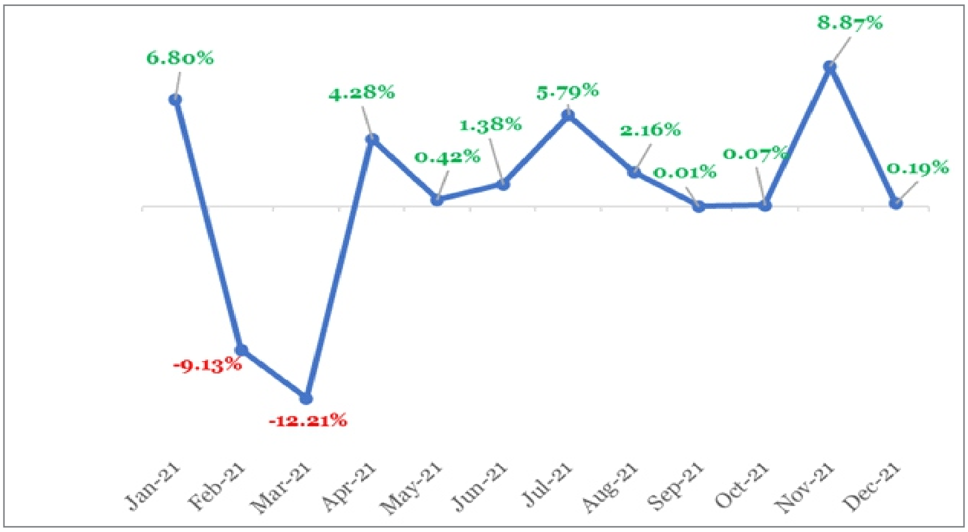
Toni Index

The chart below reveals that the Tony index recorded a positive performance in 2021 with only two months of decline (February -9.13%, March -12.21%). Investors' activity on the Index is high, as it is mainly composed of stocks in the financial services sector (UBA, AFRIPRUD, UBCAP); the industry is also most active on the NGX hence the positive performance. The months with the highest yields were November, January, and April with +8.87%, +6.80%, and +4.28%, respectively (*see chart 20*).

Chart 20: Toni Index Yields Jan. 2021 - Dec. 2021

The chart below reveals that the Tony index recorded a positive performance in 2021 with only two months of decline (February -9.13%, March -12.21%). Investors' activity on the Index is high, as it is mainly composed of stocks in the financial services sector (UBA, AFRIPRUD, UBCAP); the industry is also most active on the NGX hence the positive performance. The months with the highest yields were November, January, and April with +8.87%, +6.80%, and +4.28%, respectively. (*see chart 20*)

Chart 20: Toni Index Yield Jan. 2021 - Dec. 2021



Source: NGX, Proshare Markets

NASD OTC

The NASD Security Index Year-to-date return rose by +1.34%; even though the performance was positive, it was a decline from +5.08% YTD performance in 2020, Total volume traded Year-to-Date stands at 12,949,534,051 units in 4,988 deals and the total Value traded is N 32,845,468,092.22. Volume and values of shares traded improved by +63.29% and +158.88% respectively.

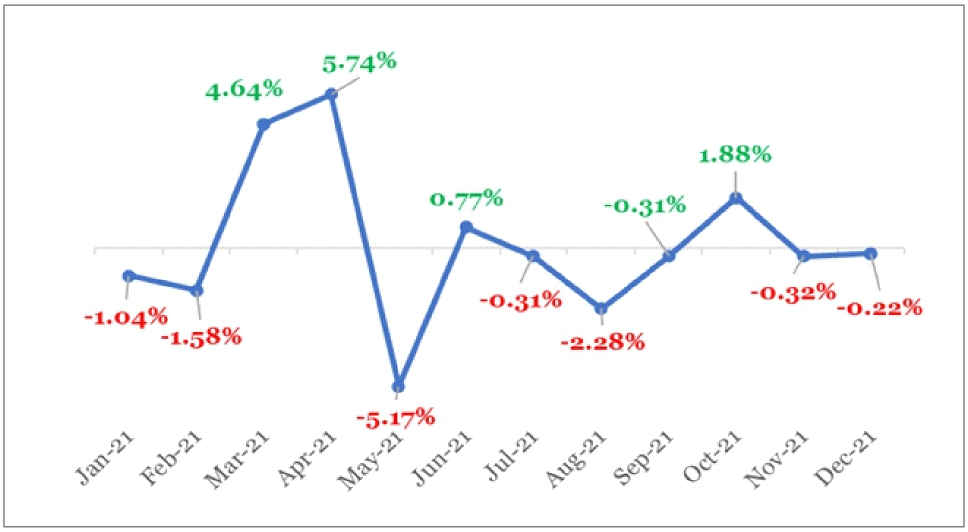
This linked to the initial listing of the demutualized NGX listed on its platform on April 14, 2021. Following its listing on the NASD, the stock traded at an early market price of N25 per share while trading activities were carried out by NASD's 152 licensed and registered dealers. The listing represented the first cross-listing for any securities exchange in the country in a total of 2,813 trades- the highest number of trades executed in 2021 on the OTC market.

The equities trading platform saw a considerable spike in market capitalization as the volume of shares traded and deals completed rose notably between Q1 and Q2 2021. The NASD's NSI Index gained +1.04%, from 747.01 points in Q1 2021 to 754.88 points in Q2 2021, and the NGX Group traded at a high of N30.26. According to market analysts, the number of deals done rose by +933.33% to 31 from 3 recorded in Q1 2021 (using the last trading day of each quarter as a benchmark). The NGX listing added N33.43bn in added OTC market cap, which raised investor interest in the market. However, After the Close of NGXGROUP'S register and the decision to withdraw from the NASD and list in the NGX, trading volumes on the NASD returned to 'normal.'

May recorded the lowest yield for the year -5.17%, followed by August, February, and January with -2.28%, -1.58%, and -1.07%. The highest gains were recorded in April, March, and October with +5.74%,

+4.64%, and +1.88% (*see chart 21 below*).

Chart 21: NASD Index Yields Jan. 2021 - Dec. 2021



Source: NASD OTC, Proshare Markets

Outlook: Slow Recovery Ahead

The equity market continues to ride on the boost in liquidity in the system and the decline in yields in the fixed income market. This supported the positive performance of the equity market in 2021. Going into 2022, we anticipate a further liquidity boost in Q1 2022 due to more maturities in the fixed income market. Hence, the equity market will likely trend upwards.

The pre-election year comes with lots of market uncertainty, there are concerns that the equities market may suffer from the usual pre-election year syndrome in 2022 and decisions of the government, especially as the government is going ahead to remove subsidies in the oil sector. This and others will shape the economy and influence the stock market positively or negatively depending on investors' sentiment and level of liquidity.

Finally, listed companies on the exchange are set to release their Q4 2021 reports, which will spill into their full-year performance and eventual dividend payment. Hence, it will be another driver of positive sentiment towards the equity market in H1 2022.

"The equity market continues to ride on the boost in liquidity in the system and the decline in yields in the fixed income market."

Oil and Gas

The global oil and gas industry is yet to fully recover to the pre-pandemic level despite a year-to-date (YTD) gain of over 50% in oil prices and a little less than a 100million barrel per day (mb/d) of global oil demand in 2021. The emergence of Covid-19 variants and their associated restrictions hit oil demand and benchmark prices in 2021. The oil market also witnessed supply disruptions on ***Hurricane Ida*** and ***Hurricane Nicolas*** in the U.S. Gulf of Mexico. Over 17.5m barrels were lost to the market with Hurricane Ida alone. Overall, underinvestment in the oil industry also fueled oil supply shortages.

Meanwhile, the industry saw increased calls and commitments to net-zero emission by 2050, particularly during the G7 summits and UN COP26 summit in Glasgow. Whereas most advanced economies, non-governmental agencies, and international financial institutions made immediate commitments to end investment in fossil fuels, the Organization of Petroleum Exporting Countries (OPEC) and its allies, a group jointly called OPEC+ maintained that the global oil and gas industry needs more investment in fossil fuels to avoid energy crisis (*see illustration 29 below*).

Illustration 29: Between Fossil Fuel and Renewable Energy

FOSSIL FUEL VS RENEWABLE ENERGY

	Fossil Fuel	Renewable Energy
Type	Non-renewable	Renewable
Source	Extracted from nature through geological process	Obtained from living matters
Impact	Major pollutant (Dirty fuel)	Environmentally sustainable (Clean fuel)
Method	Obtained through drilling and milling	Obtained from safer method
Examples	Crude oil, condensate, Natural gas, coal	Solar, wind, biofuel, hydro

Source: Proshare research

In Nigeria assets divestment by the International Oil Companies (IOCs), passage of the Petroleum Industry Act (PIA, 2021), and the Gas Expansion Programme of the government dominate activities in the industry in 2021. The global transition to cleaner energy and the operational issues across onshore and shallow water facilities prompted moves by the IOCs to divest their assets from Nigeria. In turn, the

Federal Government hastened the ratification of the Petroleum Industry Bill to clarify the legal, regulatory and fiscal framework of the Nigerian petroleum industry. The government has said it expects the PIA to discourage the divestment of the IOCs from Nigeria, attract new investors, and promote gas development as a transition fuel for the country. Notwithstanding the PIA, several activities kept the global and domestic oil markets active in 2021.

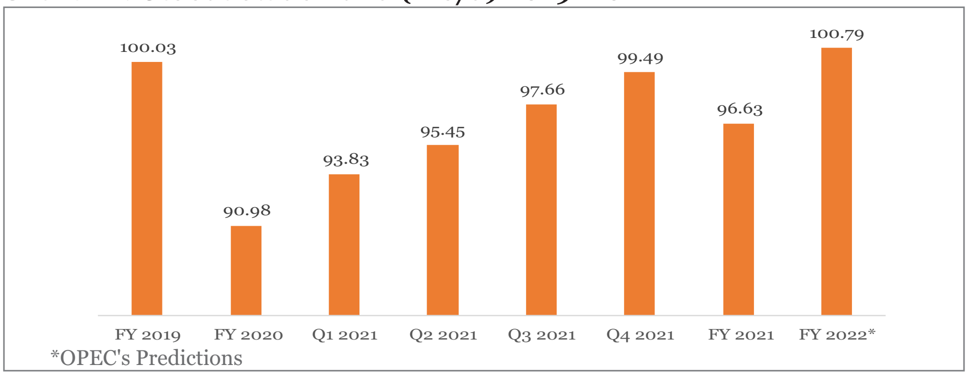
Global Oil Market in 2021

Oil Demand

In 2021, the global oil demand recovered from its record low in 2020 but remained below the pre-pandemic level of 100mb/d. The recovery was supported by stimulus packages and progressive vaccination across the globe, which led to considerable growth in consumption and international travel as more economies eased their restrictions.

Although demand sustained its positive growth in the major part of the year, there were waves of the existing Covid-19 variants in the second and third quarters and a new variant in the fourth quarter. Essentially, waves of the Delta Covid-19 variant reported in Europe and Asia as well as the weak industrial activities in those regions weigh in on the global oil demand in mid-year 2021. The emergence of a new variant- Omicron disrupted demand between November and early December. However, with continued progress and discoveries in vaccines and antibody therapies, as well as the seasonal winter oil demand, the average oil demand for 2021 settled at about 96.6mb/d, 3.4mb/d below the 2019 level (*see chart 22 below*).

Chart 22: Global oil demand (mb/d) 2019 -2022



Source: OPEC, Proshare Research

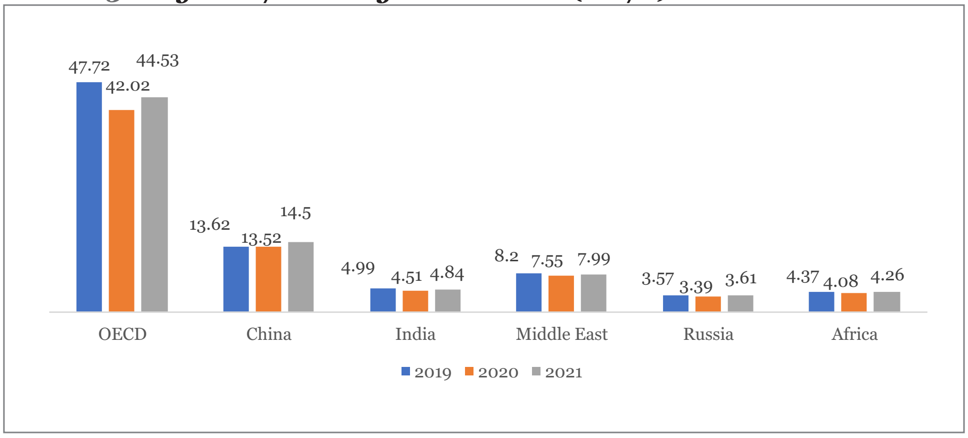
In the OECD countries, there were larger-than-expected oil demands in H1 2021. However, oil demand struggled to recover to the pre-pandemic level due to lower demand for industrial and transportation fuels for the rest of the year. Oil demand within the OECD for 2021 mirrored the slow phase of economic growth due to supply chain disruptions and the uptick in COVID-19 cases.

Meanwhile, non-OECD's oil demand in 2021 fluctuated for the better part of the year on demand swings from China and India. China's crude imports started the year relatively high but fell to an average of 8.9 mb/d in October, the lowest since February, as refiners lacked import quotas and mobility remained limited on the back of the Zero-Covid-19 policy implemented in the country. India's crude imports also fell to an average of 4.0 mb/d in October, following 2 months of successive gains. Thus, the Covid-19 and supply chain induced soft patches in H2 2021 across Asia impacted considerably on the global oil demand in 2021.

Oil demand also suffered some setbacks in the Middle East and Russia on mobility restrictions to curtail the spread of the Covid-19. While Russia has returned to the pre-pandemic level, Middle East countries are yet to recover to the pre-pandemic level.

In Africa, the slow vaccination campaign and the emergence of a new variant hindered the full recovery of economic activities in the continent. They tightened the expected growth in oil demand (*see chart 23 below*).

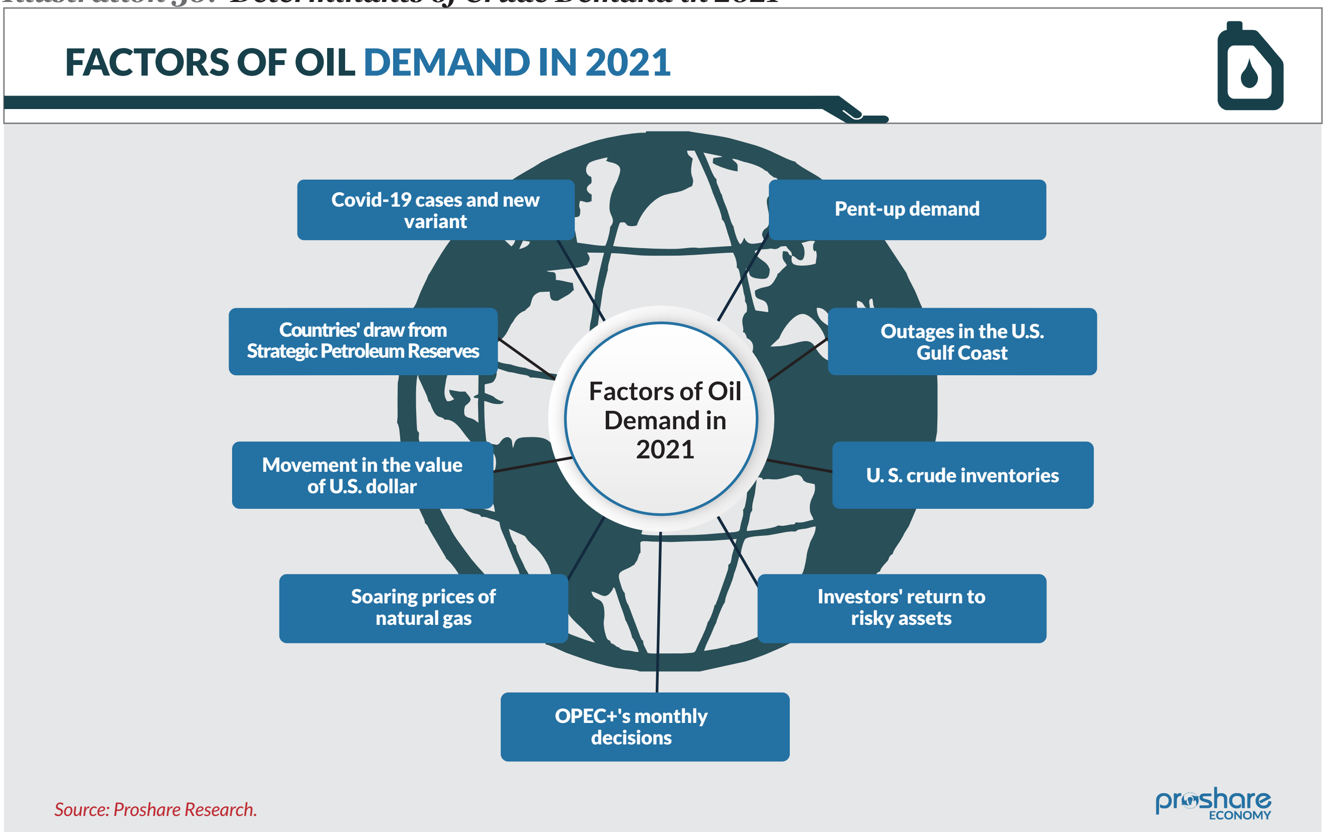
Chart 23: Regional/Country Oil Demand (mb/d)



Source: OPEC, Proshare Research

Despite the divergence in recovery efforts, several factors influenced the global oil demand in 2021 (*see illustration 30 below*).

Illustration 30: Determinants of Crude Demand in 2021

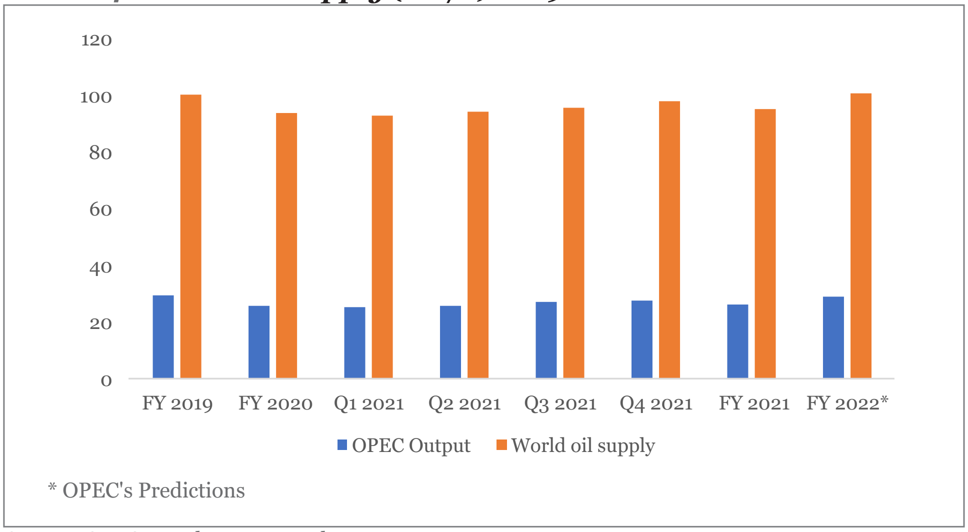


Oil Supply

The global oil supply for the year 2021 was driven mainly by the decision of OPEC+, which strived to achieve balance in the oil market.

The share of OPEC in global oil production stood at about 27.7% in 2021, with an average production of about 26.32 mb/d (*see chart 24 below*).

Chart 24: ***Global Oil Supply (mb/d) 2019 – 2022***



Source: OPEC, Proshare Research

To balance the market, OPEC+ agreed and maintained its plan to gradually ease its 2020 production cut to the market in 2021. Although the cartel agreed to release 400,000 b/d of crude oil to the market from August 2021 based on prevailing market conditions, outputs from the cartel struggled to measure up with targets. OPEC+ compliance with oil production cuts stood at about 117% in Q4 2021, an indication that the cartel struggled to meet up with agreed targets.

Overall, oil production increased in Saudi Arabia, Iraq, Iran, Algeria, Kuwait, and UAE, while production in Angola, Nigeria, Libya, Congo, and other member countries remained diminished in 2021.OPEC allies pumped more oil to the market as planned. Russia's crude oil production in 2021 increased by 0.2 mb/d year-on-year to an average of 10.79mb/d in 2021.

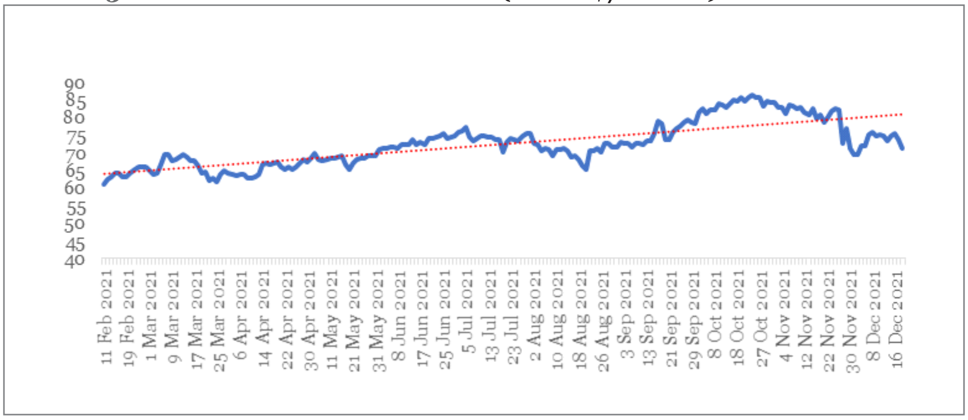
On the other hand, non-OPEC production grew by 0.7 mb/d in 2021 impacted by significant production outages in H2 2021 due to weather and accidents, prolonged and unexpected maintenance processes, and COVID-19 precautionary measures. Canada, China, the US, Norway, Guyana, and Qatar were significant contributors to non-OPEC supply growth in 2021.

Oil Prices

The tightness in the market kept oil prices elevated in 2021. Despite the lingering Covid-19 pandemic, demand had more robust fundamentals while supply was constrained by underinvestment, low spare capacity, and outages. The global oil market began the new year 2021 with a price rally above the 2020 average, and both benchmark contracts reached their 2021 highest in October, with Brent at US$86.70 and WTI at US$85.41 per barrel. Brent price averaged US$71.2 per barrel in 2021, up by 63.3% Y-o-Y above the US$43.6 per barrel average in 2020. Brent increased from about US$51 per barrel in January

2021 to about US$79 per barrel in December 2021, representing a gain of about +55% YTD (*see chart 25 below*).

Chart 25: Brent Crude Price in 2021 (USUS$/barrel)



Source: Oilprice, Proshare Research

WTI gained a higher return at 58% YTD. The 2021 performance marked the strongest performance of both contracts since 2009.

The rally in crude oil prices was predicated on increased demand buoyed by improved vaccination across Europe, Asia, and North America. An increase in coal and natural gas prices also added support to oil demand which translated to oil prices. On the flip side, supply constraints on the part of OPEC and non-OPEC producers exacerbated the market situation.

The price gap between Brent and WTI also narrowed earlier in the year, indicating the U.S. output tightness, which also supported the rally in oil prices.

Natural Gas

The natural gas market remained tightened for the better part of 2021 as a strong recovery in demand met with lower-than-average inventory levels during the summer and winter seasons. Europe battled with a persistent energy crisis buoyed by limited gas supply from Russia and other gas-producing nations, especially in H2 2021.

Essentially, the tightening of the gas markets was driven by a combination of robust demand growth as the global economies recover from the Covid-19 lockdowns, several extreme weather conditions that generated additional gas consumption, and tighter-than-expected gas supply as successive outages hindered gas production and export capacity.

International Oil Company Performance

International Oil Companies (IOCs) posted their record quarterly profit in 2021 on the back of surging oil and gas prices, higher outputs, and a significant recovery in fuel demand that boosted refining margins. Chevron beat top-and bottom-line estimates in Q3 2021, earning US$3.19 per share on an adjusted basis while total earning for the 9M 2021 jumped by a +316% Y-on-Y to US$10.57billion.

Royal Dutch Shell recorded a more robust +190% Y-o-Y improvement in adjusted earnings in 9M 2021 from US$4.45bn in 2020 to US$12.90bn in 2021, earning US$1.11 per share.

African Oil Market

The energy transition campaign, which manifested in the divestment of oil majors' assets and growth of renewable energy, dominated the African oil and gas industry in 2021.

On the one hand, IOCs have in principle divested from the African market. For instance, Shell, Chevron, ExxonMobil, and Eni have either divested or planning to divest from the Nigerian oil market while BP and Equinor have decided against new fundings for oil and gas prospects in Angola. TotalEnergies had also suspended its US$20billion LNG project in Mozambique although there is the likelihood of a restart in 2022.

On the flip side, some local and international green energy firms have expanded their operation in Africa's renewable market. ACWA- a Saudi own energy company has invested heavily into Moroccan Solar Energy. Green energy companies such as Engie Energy Access, Enel Green Power, Scatec ASA, and French EDF have also invested in green energy across Africa.

More recently, the African Development Bank (AfDB) and the International Renewable Energy Agency (IRENA) agreed to support investment in low-carbon energy projects on the continent. The duo expects the move to advance Africa's energy transition.

In the latter part of 2021, the continent signed a few oil and gas-related deals at the second Intra-African Trade Fair (IATF 2021) held in Durban, South Africa. One of such deals is Nigeria's state-own enterprise's (the NNPC) US$1.04billion deal with the African Export-Import Bank (Afreximbank) to finance petroleum exploration in Nigeria. The target is to boost foreign currency receipts and create jobs along Africa's oil and gas refining value chain.

Nigerian Oil Market

The signing into law of the Petroleum Industry Act 2021 (PIA) was a significant milestone in the Nigerian oil and gas industry in 2021. The PIA, which was signed into law on 16 August 2021 by President Muhammed Buhari after its passage by the 9th National Assembly in July, provides a complete overhaul of the oil and gas's legal, regulatory, and fiscal regime industry (*see illustration 31 below*).

***Illustration 31:* Petroleum Industry Act (PIA 2021)**

MAJOR PROVISIONS OF THE PIA

Major provisions of the PIA 2021

Governance

- Two Regulatory bodies: The Nigerian Midstream and Downstream Regulatory Authority (NMDPRA) and the Nigerian Upstream Regulatory Commission (NURC)
- Establishment of NNPC Limited
- Establishment of Frontier Basins Exploration Fund
- Establishment of Midstream and Downstream Gas Infrastructure Fund
- Establishment of Incorporated Joint Ventures

Major provisions of the PIA 2021

Administration	• Marginal Field to convert to Petroleum Mining Lease within 18 months of the PIA effective date • Introduction of new license types: Petroleum Prospecting Licences (PPL), Petroleum Exploration Licences (PEL) and Petroleum Mining Licences (PML) • Introduction of model licence or lease for bid rounds • Establishment of decommissioning and abandonment funds for onshore and offshore petroleum facilities
Host Community	• Establishment of the Host Communities' Development Trusts Fund • Allocation of 3% of settlers' annual operating expenditure in the preceding financial year to the fund
Fiscal	• Introduction of Hydrocarbon Tax of 15% and 30% • Introduction of minimum Hydrocarbon Tax Concept-Cost Price Ratio • Introduction of 0.5% levy on wholesale price of petroleum products and natural gas sold in Nigeria • Payment of 30% Companies Income Tax by upstream companies • Production and price-based Royalties • Exemption of deep offshore operations from Hydrocarbon Tax
Legal	Repeals: • Associated Gas Reinjection Act, 1979; • Hydrocarbon Oil Refineries Act No. 17 of 1965; • Motor Spirits (Returns) Act; • Nigerian National Petroleum Corporation (Projects) Act 1993, 1997; • Petroleum Products Pricing Regulatory Agency Act 2003; • Petroleum Equalisation Fund Act 1975; • Petroleum Profit Tax Act; and • Deep Offshore and Inland Basin Production Sharing Contract Act 2019.

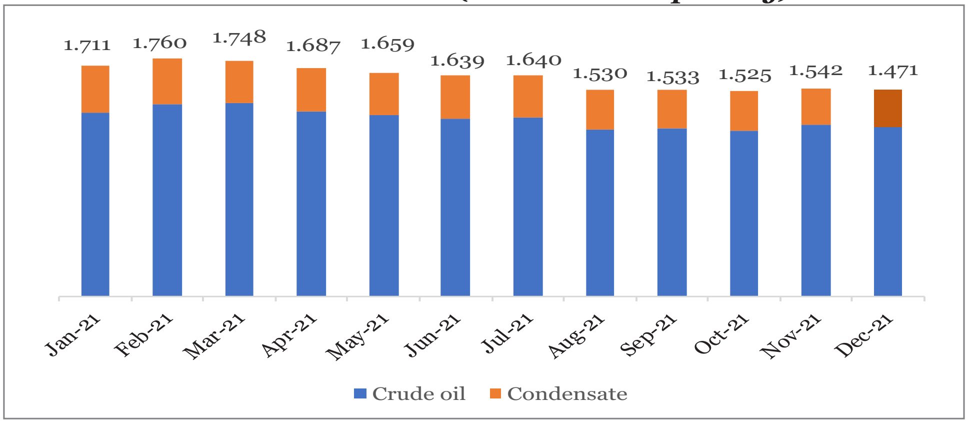
Source: Proshare Research.

Nigeria's Oil Production

In compliance with OPEC's decision on quota and penalty, Nigeria's oil production throughout H1 2021 was lower-than-expected as the country produced 1.36 mb/d in January, 1.43 mb/d in March, and 1.34 mb/d in May. Comparably, when oil prices traded higher and the country's oil production quota was raised during the second half of the year, production figures remained low. The country produced 1.32 mb/d in July, 1.25 mb/d in September, and 1.27 mb/d in November, excluding condensate.

While Nigeria's production capacity stood at about 2-3mb/d of crude oil and condensate, its production level hovered around an average of 1.6mb/d in 2021 (*see chart 26 below*).

Chart 26: ***Oil Production in 2021 (Million barrel per day)***

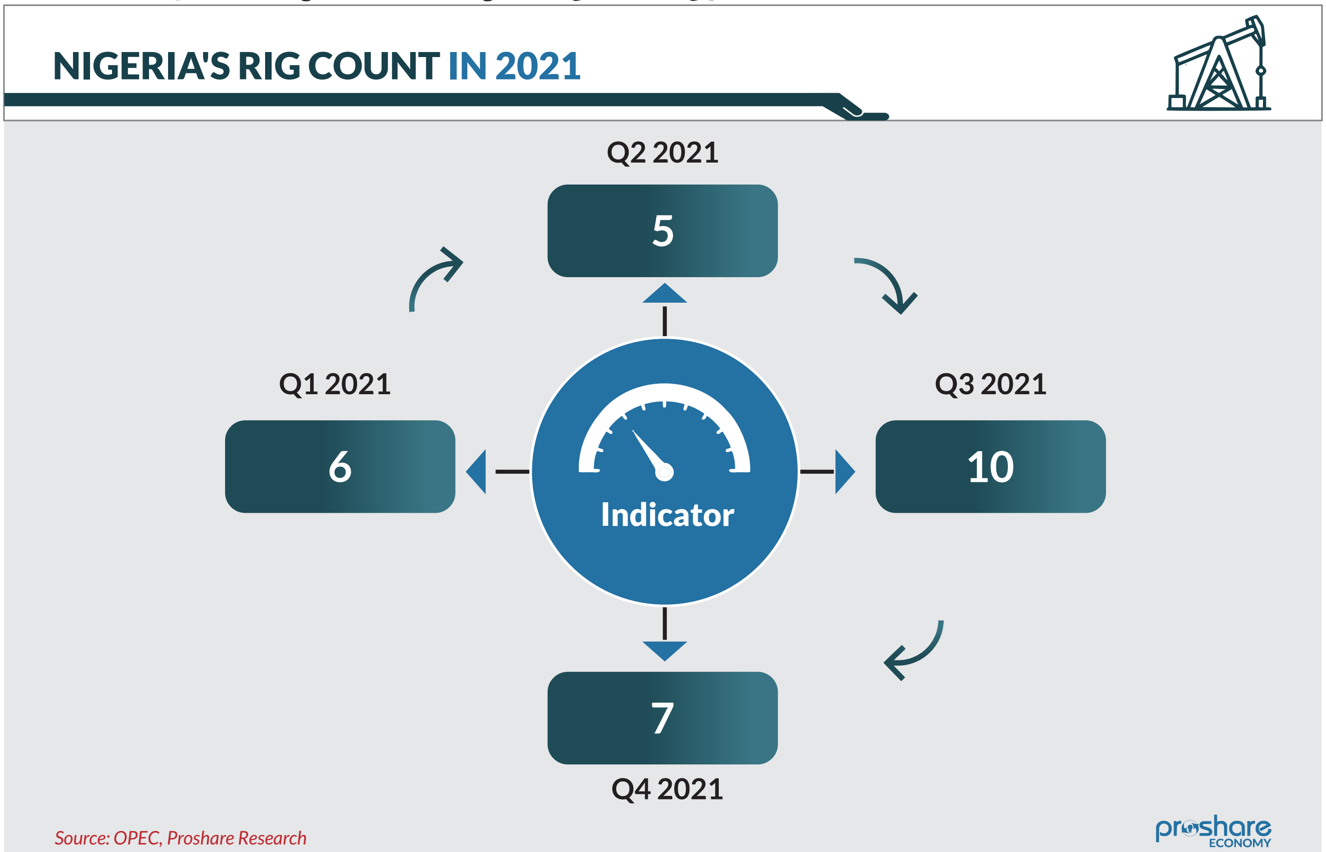


Source: Nigerian Upstream Petroleum Regulatory Commission, Proshare Research

Nigeria's oil productions were mainly impeded by factors like OPEC quota, technical problems, operational issues, maintenance processes, and sabotage. Specifically, large oil fields such as Bonny, Brass River, Escravos, Forcados, and Qua Iboe as well as offshore fields like Agbami, Bonga, and Usan pumped lower than installed capacity within the year due to technical and maintenance issues which sometimes led to force majeure at those terminals. There were several leakages along some of the country's pipeline networks. Nembe Creek Trunk, Trans Ramos Pipeline, and Izombe-Ebocha line, among others, have had to shut in due to maintenance repairs, leakages, or vandalism.

In another signal of decline in oil production in the country, Nigeria's rig count saw disappointing figures in 2021 (*see illustration 32 below*).

Illustration 32: ***Oil Rig Count in Nigeria Q1 2021-Q4 2021***



Meanwhile, the NNPC's intent to resume active oil exploration search in the frontier basin of Sokoto Basin, Benue Trough, Chad Basin, Bida Basin, Dahomey Basin, and Anambra Basins got some boosters with the allocation of 30% of NNPC Limited profit, 10% of rents on petroleum prospecting licenses, and 10% of the rent on petroleum mining leases to a Frontier Basins Exploration Fund under the new PIA 2021.

Analysts believe the country's priority and funding in the industry should rather be directed at addressing the existential issues affecting the industry.

Marginal Oil Fields

Within the year, the defunct Department of Petroleum Resources (DPR) awarded licenses to investors for the production of crude oil from 57 marginal fields in the 2020 Marginal Oilfield Bid Round Programme. The new upstream regulator has stated its plan to wind up the bid round.

Needless to say that the PIA 2021 no longer provides for the declaration of new fields as marginal fields, thereby creating an even playing ground for all players in the industry.

Domestic Refineries

With zero throughput rate and consistent losses recorded at the four government-owned refineries early in 2021, the Federal Executive Council (FEC) in March 2021 approved US$1.5bn for the rehabilitation of the Port Harcourt refinery in 3 phases of 44 months in total. In August 2021, the FEC also approved US$1.4bn for the rehabilitation of Kaduna and Warri refineries. The NNPC expects to deliver refined oil from the four refineries with a combined capacity of 445,000 b/d in Q1 2023.

Meanwhile, the 650,000 b/d Dangote Refinery in Lagos is expected to wean Nigeria of petrol importation earlier from Q4 2022. However, that is subject to the company's discretion given its location in the free trade zone.

To protect the country's interest in private refineries, the NNPC said that it will acquire minority stakes in a few private refineries, including Dangote Refinery. The corporation argued that the law mandated it to have stakes in private refineries with a capacity exceeding 50,000 b/d (*see illustration 33 below*).

> ***"Analysts believe the country's priority and funding in the industry should rather be directed at addressing the existential issues affecting the industry."***

*Illustration 33: **The Capacity of Nigerian Refineries***

MAJOR REFINERIES IN NIGERIA

Refinery name	Location	Capacity b/d
Port-Harcourt Refining and Petrochemical Company Limited (PHRC)	Port Harcourt	210,000
Kaduna Refining and Petrochemical Company Limited (KRPC)	Kaduna	110,000
Warri Refining Petrochemical Company Limited (WRPC)	Warri	125,000
Niger Delta Exploration and Production Plc	Ogbele	6,000
Waltersmith Refining & Petrochemical Company Limited	Ibigwe	5,000
Dangote Oil Refinery Company	Lekki Free Trade Zone	650,000

Source: Defunct DPR, Proshare Research

proshare ECONOMY

Nigeria Gas Development

Nigeria currently has the largest proven gas reserves in Africa and the 9th largest reserves globally with over 206 trillion cubic feet of proven natural gas and about 600 trillion cubic feet of unproven natural gas. With a large deposit of natural gas, the Federal Government of Nigeria in March 2021 declared the year 2021 to 2030 as Nigeria's decade of gas, coming after 2020 was declared a year of gas. The Federal Government said it plans to make gas Nigeria's transition fuel and to have the economy powered mainly by gas by 2030.

The shift to gas was driven by the rising cost of petrol subsidies and the global transition to cleaner energy. Therefore, the Nigerian government started the campaign for the use of Compressed Natural Gas (CNG) and Liquefied Petroleum Gas (LPG) as alternative energy sources.

To stimulate investment in the gas value chain, the Ministry of Petroleum Resources, in partnership with the Central Bank of Nigeria (CBN), introduced N250bn National Gas Expansion Fund. However, domestic gas producers and importers continue to decry the countercyclical effects of current government policies such as the reimposition of VAT on imported LPG, retroactive claims on LPG importers, and the regulated pricing policy.

The cost of LPG rose significantly in 2021, jumping, for instance, by over 240% between January and October 2021. LPG marketers have attributed the increase to the reimposition of 7.5% VAT, devaluation of the naira against the dollar, and logistic issues at the terminals. This development has forced many Nigerians to return to charcoal and firewood.

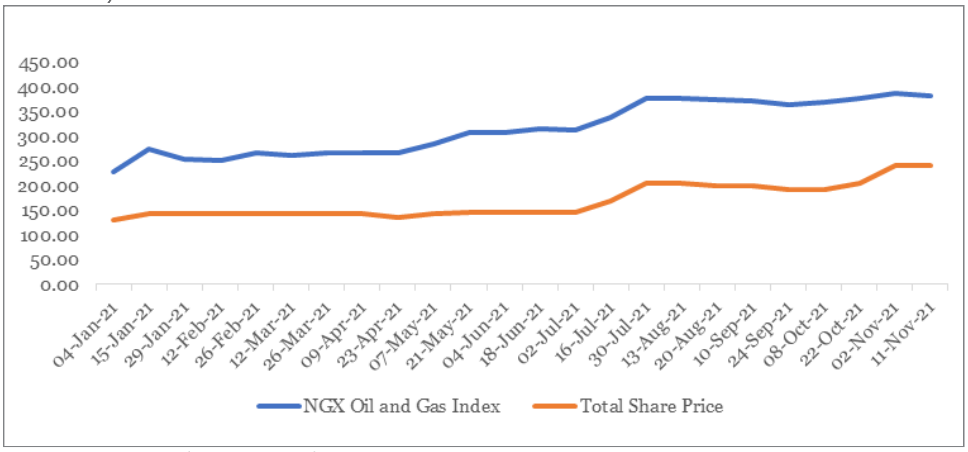
Case Study

Total Energies Marketing Nigeria Plc

TotalEnergies Marketing Nigeria Plc is a petroleum marketing and distribution company in Nigeria. The 9Month 2021 (Q1-Q3) results revealed that the company improved considerably in earnings, asset efficiency, and profitability compared with its performance in the corresponding period of 2020. On a quarter-on-quarter basis, the company recorded similarly impressive performance in earnings and profitability, especially in Q3 2021, on the back of a rapid recovery in economic activities.

The share price of TotalEnergies started the year on a bullish note and maintained its positive trend through the significant parts of the year. The share price gained +85.23% YTD as of November 11, 2021. The company's share price traded parallel to the NGX Oil and Gas Index, with a high and positive correlation of 0.91 (*see chart 27 below*).

Chart 27: Total's Share Price movement and NGX Oil & Gas Index in 2021



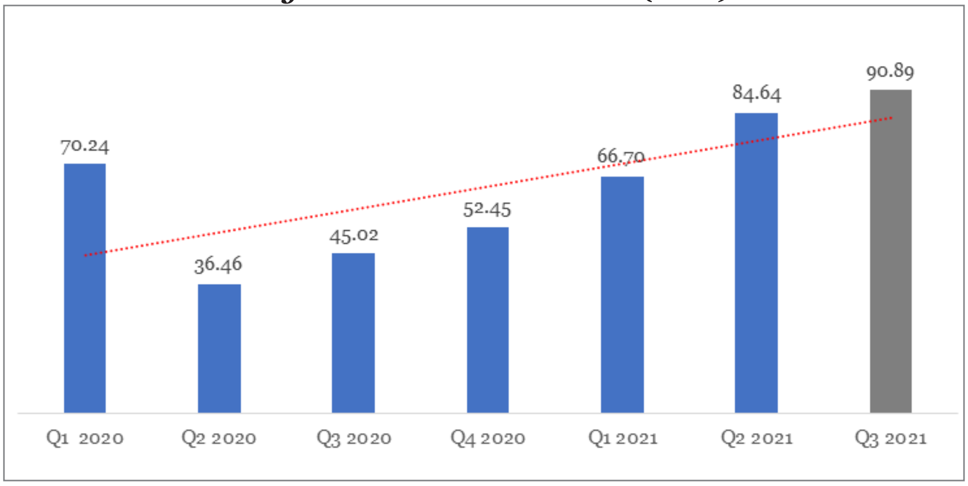
Source: NGX, Proshare Research

TotalEnergies' Revenue

The company revenue saw increased growth on quarterly accumulation after recovering from the covid-19-induced drop in 2020. TotalEnergies' revenue increased by +7.38% Q-o-Q from N84.6bn in Q2 2021 to N90.89bn in Q3 2021.

The 9M 2021 revenue grew by +59.66% Y-o-Y from N151.71bn in 9M 2020 to N242.22bn in 9M 2021. The growth was supported by improved economic recovery with 71.54% growth in sales of lubricants and 53.97% growth in sales of petroleum products (*see chart 28*).

Chart 28: TotalEnergies' Revenue 2020 - 2021 (N'bn)

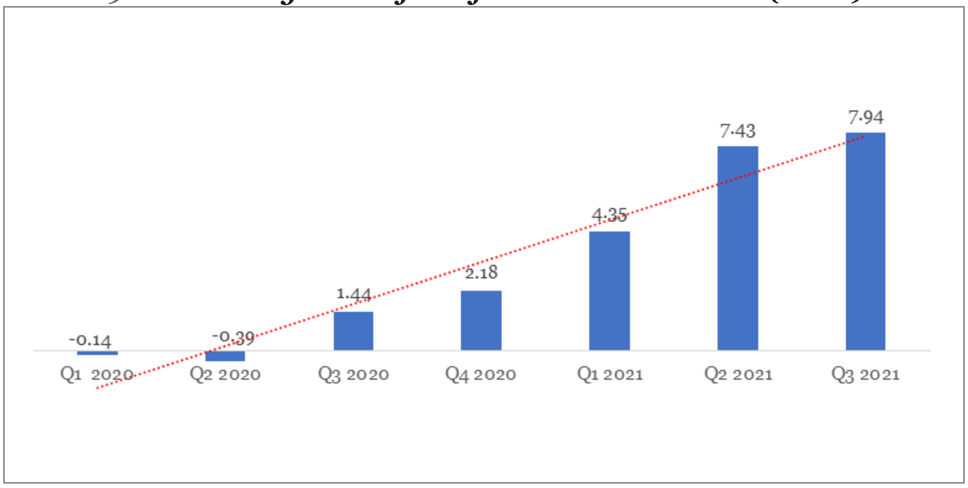


Source: TotalEnergies' Financial Statement, Proshare Research

TotalEnergies' PBT

The 2021 results released by the company revealed that the company's bottom-line figures grew steadily over time. In Q3 2021, the company's PBT grew +6.86%, while the cumulative 9M PBT grew significantly by +2067.55% Y-o-Y from N912.88m in 9M 2020 to a full N19.72bn in the 9M 2021. This was supported by an increase in revenue and a decrease in finance costs within the period (*see chart 29 below*).

Chart 29: TotalEnergies' Profit Before Tax 2020 – 2021 (N' bn)

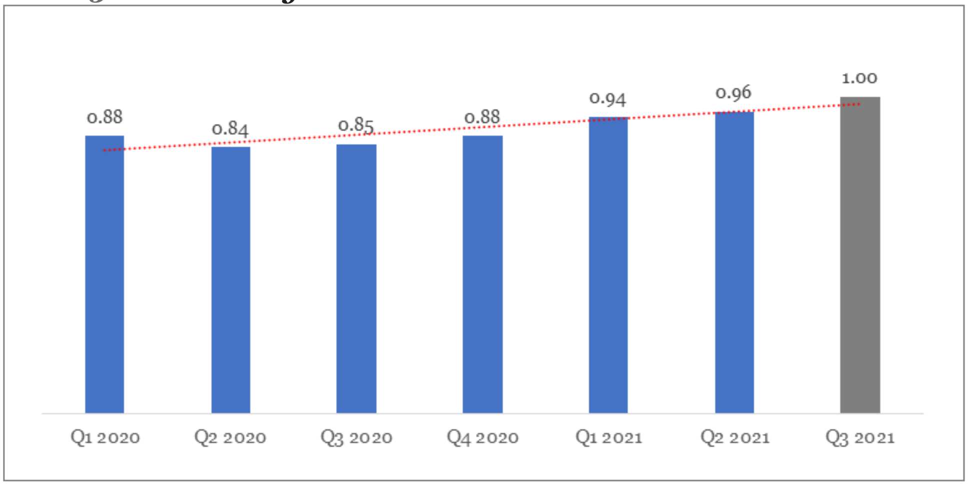


Source: TotalEnergies' Financial Statement, Proshare Research

TotalEnergies' Current Ratio

The current ratio recorded a considerable improvement in Q3 2021 to 1.00 from 0.85 in Q3 2020 and 0.96 in Q2 2021. Whereas a current ratio of 2 is preferable for the company, the Q3 2021 current ratio shows the company maintained just enough liquidity within the period (*see chart 30*).

Chart 30: TotalEnergies' Current Ratio 2020 - 2021

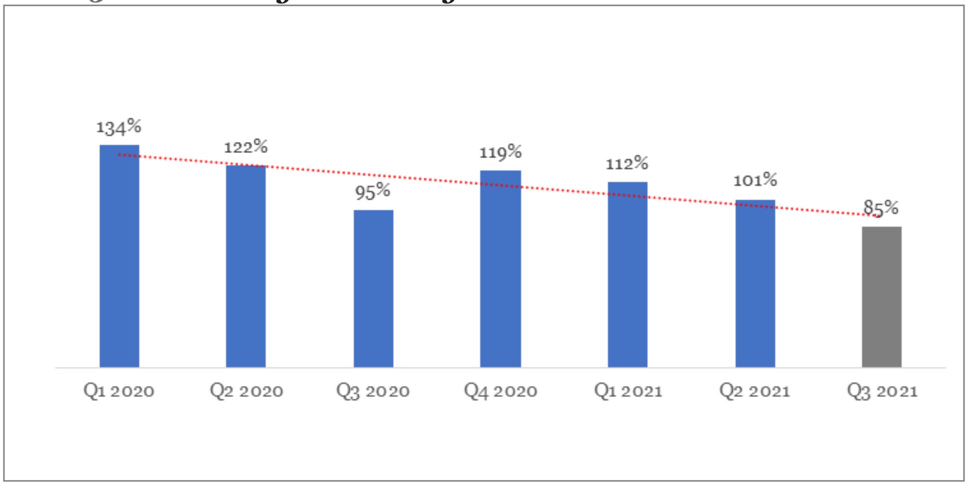


Source: TotalEnergies' Financial Statement, Proshare Research

TotalEnergies' Leverage Ratio

The oil company's leverage ratio reached its record low in Q3 2021. The ratio declined from 95% in Q3 2020 and 101% in Q2 2021 to 85% in Q3 2021. A breakdown of the ratio reveals that its total debt stock plunged by -2.96% while its total equity rose by +16.21% Q-o-Q from Q2 2021 to Q3 2021. Analysts believe the decline in leverage gave the company more control over its finances with lesser risk. (*see chart 31 below*).

Chart 31: TotalEnergies' Leverage Ratio 2020 – 2021

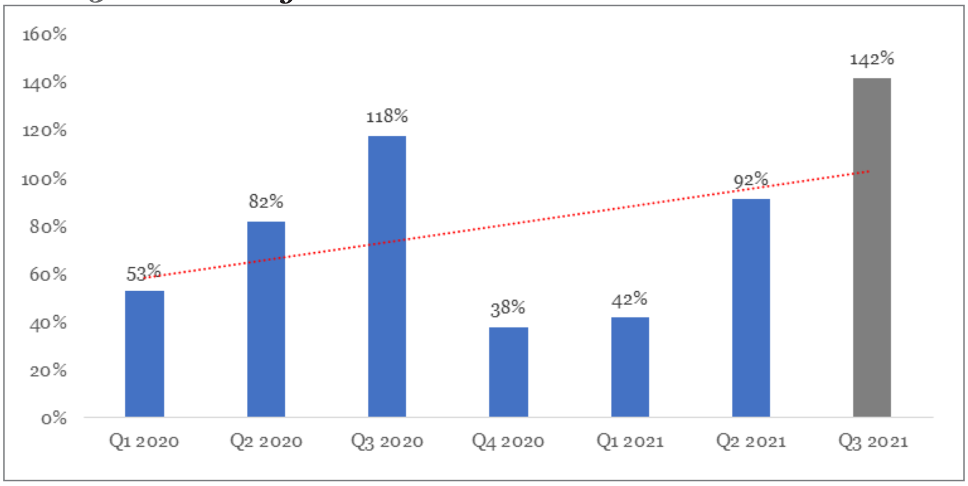


Source: TotalEnergies' Financial Statement, Proshare Research

TotalEnergies' Asset Turnover

The company's asset turnover, a measure of the company's assets efficiency in generating sales/revenue, improved on an annual and quarterly basis. Specifically, TotalEnergies' asset turnover increased from 118% in Q3 2020 and 92% in Q2 2021 to 142% in Q3 2021. This implies that the company generated N1.42 in revenue for every N1 it incurred in assets within the first nine months of 2021 (*see chart 32*).

Chart 32: ***TotalEnergies' Asset Turnover Ratio 2020 – 2021***



Source: TotalEnergies' Financial Statement, Proshare Research

Overall, the Nigerian oil and gas companies reported modest improvement in the first nine months of 2021 (9M 2021). The Q3 2021 results of oil and gas companies show an increase in earnings and financial positions despite the lingering pandemic and uncertainty in the future of fossil fuels. The 9M 2021 performance of the companies posted substantial improvement from the corresponding period in 2020. The average revenue growth across six oil companies - Ardova, Conoil, Eterna, MRS, Seplat, and Total for the 9M 2021 stood at +36.84% Y-on-Y (*see table 14 below*).

Table 14: ***The Performance of Quoted Oil and Gas Companies***

SELECTED OIL AND GAS INDUSTRY PERFORMANCE MATRIX

	Total	Seplat	Ardova	Conoil	Eterna	MRS
Revenue (N'bn) (Change Y-0-Y)	242.22 (+59.7%)	182.70 (+34.7%)	136.10 (+6.2%)	100.98 (+14.6%)	61.37 (+39.5%)	53.23 (+66.3%)
PBT (N' bn) (Change Y-0-Y)	19.72 (+2060.6%)	38.63 (+184.9%)	1.94 (-19.8%)	2.34 (+43.5%)	0.57 (+39.2%)	0.31 (+133.7%)
Working Cap. (N' bn) (YTD change)	0.64 (-104.7%)	98.37 (+104.9%)	-0.85 (-280%)	22.08 (+42%)	1.24 (+1.64%)	1.24 (+1.64%)
Total Assets (N' bn) (YTD change)	197.81 (+37.7%)	1,422.0 (+8.5%)	72.77 (+12.2%)	48.83 (-0.1%)	43.73 (+22.3%)	35.34 (-3.6%)
Interest Coverage (YTD change)	16.21 (+3144.8%)	2.58 (+75.4%)	3.17 (+1.7%)	5.89 (+97.8%)	1.63 (+14.2%)	0.68 (-57.6%)
Asset Turnover (YTD change)	1.18 (+20.4%)	0.13 (+3.7%)	2.65 (-25.3%)	1.52 (+35.8%)	1.43 (+7.7%)	0.77 (+91.9%)

Source: NGX, Proshare Research

Commodities Market

In the year 2021, the world economy started its comeback after the slip experienced in the previous year due to the novel coronavirus which broke out at the end of 2019 and spread throughout the world in 2020, affecting all sectors of the economy. The commodity market wasn't left out. It also experienced a severe disruption to the supply chain during the height of the pandemic.

The global food supply chain disruption leads to economic stress and malnutrition in several developing nations. Nigeria, standing at number 22 in population growth and the birth rate, was not left out. Nigeria's Agricultural sector contributes significantly to our GDP, having a 30% input to the total GDP between July 2021 and September 2021. After the disruptions in the agricultural supply line in the previous year, a gradual easing of the lockdown allowed for better movement of agricultural produce, as security operatives had indiscriminately and recklessly implemented these restrictions. The effects were tremendous as it affected the pricing of many farm produce, forcing farmers to sell at a cheaper rate due to wastage resulting from unattended crops resulting in losses for these farmers.

Nigeria's food inflation increased to 22.95% in March 2021 (CBN, 2021), a possible result of the problems faced in the previous year due to lower farm yields from disruptions to the supply chains.

On Monday, October 18, 2021, African Development Bank (AfDB) Group President Akinwumi Adesina, in a meeting with a high-level Nigerian delegation, assured President Buhari that the Bank would provide support to tackle food security challenges, noting that driving food prices down would result in the reduction of inflation. In a bid to accelerate Nigeria's agricultural sector, the CBN push forth the Anchors Borrowers Program (ABP), furthering farmers access to loans to increase and improve production.

Metals

Gold

A year on from the year halted to be a ravaging pandemic; it seems the world's economies have found a way to operate optimally once more. The effect this has had on precious metals has been a massive one; gold especially has had its prices dropping steadily. After the record high of over US$2000/t.oz in the previous year at the height of the pandemic, the precious metal has struggled to come close. Starting the year at US$1949.35/t.oz, it felt like the precious metal was going to start a push to break the all-time high sadly this wasn't to be as this price was short-lived and now seems like a quantum distance away as we watch the precious metal slip gradually with time. While it has not fallen as low as the US$1184.35/t.oz observed in the year 2018, there is an indication that at its current rate, it could drop far more than expected.

In May 2021, a retrace was on the cards as inflation coupled with Fed's dovish stance began a push that eventually ended up forcing gold beyond the psychological level of US$1900/t.oz by the first week of June. This climb was also short-lived as the prices dropped an astronomical 146 basis points or 8% to US$1761.09/t.oz by the end of June.

Gold prices generally reflect investor sentiments to news and happenings around the globe; thus, its prices began to climb again once a new variant (omicron) of the novel coronavirus was identified and announced. For about a week, investors turned to safe havens seeking gold, thereby driving its price upwards. This lasted for two weeks as new information hit the market explaining that the new variant wasn't as dangerous as once thought, even as it had a very high transmission rate. News about booster shots curbing the effect of the new variant and some vaccines able to stand against this new variant didn't help gold either as a notable calm was observed in the market, pushing the price of gold down once more (*see table 15 below*).

Table 15: The Performance of Gold M-o-M(January-December 2021)

GOLD M-O-M PERFORMANCE (JAN - DEC 2021)

Months	Prices($/t.oz)	%Change (M-O-M)
January	1847.3	-2.50%
February	1728.8	-6.40%
March	1715.6	-0.80%
April	1767.7	3.00%
May	1905.3	7.80%
June	1771.6	-7.00%
July	1812.6	2.30%
August	1818.1	0.30%
September	1757	-3.40%
October	1783.9	1.50%
November	1776.5	-0.40%
December	1807.8	1.80%

Source: CNBC, Proshare research, Ecographics

Silver

Silver, the white metal, underperformed in 2021 as other precious metal Gold. Like most commodities, the price of silver is also driven by supply and demand along with speculations. While silver had a price range around US$23/t.oz towards the end of December, it wasn't like that in the first quarter of the year hovering around the US$26/t.oz mark (*see table 16 below*).

***Table 16:* The Performance of Silver – Year-to-Date (YTD) Dec. 2021**

GOLD AND SILVER YEAR-TO-DATE PERFORMANCE (YTD 2021)

Commodity	30/12/2021	31/12/2020	YTD Change
Gold ($/t.oz)	1807.8	1895.1	-4.6%
Silver ($/t.oz)	23.035	26.412	-12.8%

Source: CNBC, Proshare research, Ecographics

Silver reached around US$29/t.oz in February, its highest in 8 years. The belief was a shift towards green energy in the world would increase demand for the precious metal as it is essential in producing solar panels and EVs. Its conductivity and corrosion resistance made it necessary for conductors and electrode production. This was not to be as the price of the white metal has since declined by about 22% (*see table 17 below*).

***Table 17:* The Performance of Silver M-o-M (January-December 2021)**

SILVER M-O-M PERFORMANCE (JAN - DEC 2021)

Months	Prices($/t.oz)	%Change (M-O-M)
January	26.914	1.90%
February	26.44	-1.80%
March	24.532	-7.20%
April	25.873	5.50%
May	28.014	8.30%
June	26.194	-6.50%
July	25.547	-2.50%
August	24.006	-6.00%
September	22.047	-8.20%
October	23.949	8.60%
November	22.765	-4.90%
December	23.06	1.30%

Source: CNBC, Proshare research, Ecographics

The question as to what is in store for the White metal in 2022 still looms as the global recovery continues, and while global recovery doesn't affect the pricing of silver the way it does gold, the feeling that Silver's underperformance could continue into 2022 is high. As the world pushed for greener forms of energy in the latest UN Climate Change Conference (COP26), expectations fell rapidly towards the end of the summit as countries who depended heavily on debatable sources of energy which the conference was set to tackle seemed adverse to taking the step any time soon to reduce dependence on such forms of energy.

The year 2022 would be a defining year for silver following the stronger recovery of economies from the 2020 global health crisis. Should the automobile industry come out stronger, demand for silver would increase. Asides from Jewelleries, Automobiles, Solar Technology, silver would be useful in the electronics industry as well as tableware and medicine. Better economic recovery spells a boom period for silver as demand would be expected to increase inadvertently casing a drive up in the price of silver.

Palladium

The shortage in the automobile industry equally affected palladium. Used in catalytic converters, the palladium market is tiny and volatile. The price of palladium is significantly affected by the availability of semiconductor chips; gravely used in cars for things from engines to touch screen displays.

Palladium prices dropped in the first quarter of 2021 from a spot price of US$2453.8/t.oz attained on December 31, 2020. After the drop off in price in the first quarter, it was quickly followed by a high retrace in the second quarter. This retrace, however, didn't last more than the second quarter as prices began dropping drastically in the market for consecutive quarters, Q3 and Q4. A shortage in computer chips globally hit the automobile sector, causing a slowdown in car manufacturing; the smaller the supply of computer chips globally, the less the demand for palladium and other car manufacturing metals (*see table 18 below*).

Table 18: Quarterly Average Price for Palladium (US$/t.oz)(Q12021 - Q4 2021)

PALLADIUM QUARTER PRICES (Q1 - Q4 2021)

Quarter	Prices($/t.oz)	%Change
Q1	2380.6	-2.98%
Q2	2854.3	19.90%
Q3	2342.3	-17.94%
Q4	1890.3	-19.30%
Total		-5.08%

Source: CNBC, Proshare research, Ecographics

proshare ECONOMY

Prices of palladium reached their highest YTD price in the first week in May at US$2981.4/t.oz but have since fallen, dropping to its lowest in December at US$1551.6/t.oz thus furthering claims that demand for this precious metal is below the current supply after the rebound noticed in mining the metals from 2020 mining and refinery closures (*see table 19*).

Table 19: The Performance of Palladium M-o-M (January-December 2021)

PALLADIUM M-O-M PERFORMANCE (JAN - DEC 2021)

Months	Prices($/t.oz)	%Change (M-O-M)
January	2208.4	-10.00%
February	2313.5	4.76%
March	2619.9	13.24%
April	2953.7	12.74%
May	2830.1	-4.18%
June	2779.2	-1.80%
July	2656.2	-4.43%
August	2471	-6.97%
September	1899.8	-23.12%
October	1980.3	4.24%
November	1707.5	-13.78%
December	1983.2	16.15%

Source: CNBC, Proshare research, Ecographics

proshare ECONOMY

The drop in Palladium prices mirrors the slowdown in economic activity but is expected to do a short climb in 2022, hitting the US$2100/t.oz - US$2250/t.oz range before continuing its selling pressure.

Agriculture

Wheat

Wheat prices generally appreciated in 2020 as its prices posted growth per quarter. Wheat started the year with a higher price than the previous year, posting a price of US$663/bu in January, a 3.51% rise from the price posted on the last day of 2020. While the wheat prices depreciated M-o-M by February and March 2021, the Q1 performance was higher than the price of the last day of 2020. A 5.09% increase was experienced in this grain's prices as it posted an average of US$709.19/bu throughout 2021 compared to the price of the last trading session in 2020 (*see table 20 below*).

*Table 20: **Quarterly Average Prices of Wheat (US$/bu)(Q12021 - Q4 2021)***

WHEAT QUARTER PRICES (Q1 - Q4 2021)

Quarter	Prices($/bu)	%Change
Q1	647.08	1.03%
Q2	692.58	7.03%
Q3	717.17	3.55%
Q4	779.92	8.75%
Total		5.09%

Source: CNBC, Proshare research, Ecographics

proshare ECONOMY

Harvests were reduced during the year, and this affected wheat prices globally, with several countries experiencing lousy weather conditions. Major exporters of this grain found it hard to meet up with supply as dry weather generally affected Canadian wheat production in September. Russia faced higher food inflation which impacted the prices of the export of this commodity, pushing the prices up for wheat importing countries. Amid price, hike came in an undersupply at 37.5% from July 1, 2021, of the entity affecting some of the major importing countries, particularly Egypt, the world's largest importer of Wheat saw an increase in expensive tenders (*see table 21 below*).

*Table 21: **The Month-on-Month Performance of Wheat(%) (January-December 2021)***

WHEAT M-O-M PERFORMANCE (JAN - DEC 2021)

Months	Prices($/bu)	%Change (M-O-M)
January	663	3.51%
February	660.25	-0.41%
March	618	-6.40%
April	734.75	18.89%
May	663.5	-9.70%
June	679.5	2.41%
July	703.75	3.57%
August	722.25	2.63%
September	725.5	0.45%

Months	Prices($/bu)	%Change (M-O-M)
October	772.75	6.51%
November	787.25	1.88%
December	779.75	-0.95%

Source: CNBC, Proshare research, Ecographics

With supply chain problems still at its fore, we could see the continued upward trend from wheat prices. It could make a retrace here or there but would continue its bullish run as it approaches the US$800/bu mark and above.

Cocoa

After joining forces in June 2019, Ghana, and Côte d'Ivoire, together, produce more than 50% of the world's cocoa in a bid to exert greater pricing power by agreeing on a price floor of US$2,600 per tonne of cocoa produced. This move could have helped increase remittances from cocoa export being major players in the industry. Unfortunately, it has not been how they had hoped, at least in 2021.

The price floor was broken and seemed like a far cry away now. After climbing above the price floor set by these countries in February, getting up to US$2600/MT, its price has traded below the price floor monthly. Cocoa generally underperformed in the whole year with Q4 showing this more pronounced underperformance (*see table 22 below*).

Table 22: Quarterly Average Prices of Cocoa (US$/MT)(Q12021 - Q4 2021)

COCOA QUARTER PRICES (Q1 - Q4 2021)

Quarter	Prices($/MT)	%Change
Q1	2494.33	-4.17%
Q2	2412.33	-3.29%
Q3	2519.33	4.44%
Q4	2495.00	-0.97%
Total		-1%

Source: CNBC, Proshare research, Ecographics

The first quarter wasn't too good for Cocoa after depreciating at -4.17% setting a tone for what was to come this year. A sustained drop of -3.29% in the second quarter left much to be desired for the bean prices. After its retrace in the third quarter, as the prices appreciated by 4.44%, a course was set for prices to get back above the price floor set by the partnership of these major producers of the bean. This wasn't to be as the prices further plummeted in the fourth quarter, depreciating at -0.97%, thus holding on to the marginal drop experienced throughout the year at -1% (*see table 23 below*).

*Table 23: **The Month-on-Month Performance of Cocoa(%) (January-December 2021)***

COCOA M-O-M PERFORMANCE (JAN - DEC 2021)

Months	Prices($/MT)	%Change (M-O-M)
January	2531	-2.77%
February	2604	2.88%
March	2348	-9.83%
April	2392	1.87%
May	2456	2.68%
June	2389	-2.73%
July	2366	-0.96%
August	2540	7.35%
September	2652	4.41%
October	2580	-2.71%
November	2346	-9.07%
December	2559	9.08%

Source: CNBC, Proshare research, Ecographics

Corn

The grain had a bullish trend as it closed with an average price rise of 5% compared to last year's last day. It started the year on a perfect note, with prices accelerating 14.24% in the first quarter, showing a possible bullish run for the year. This price acceleration was followed in the second quarter as it improved in its first quarter by 15.66%. A strong reversal in the third quarter of -15.75% put pressure on the bullish performance that the grain prices had had up till that moment; this, however, wasn't enough to force corn prices to change their bullish run in the year as it recorded a return of 7.15% continuing its bullish run into 2022 (*see table 24 below*).

Table 24: Quarterly Average Prices of Corn (US$/bu)(Q12021 - Q4 2021)

CORN QUARTER PRICES (Q1 - Q4 2021)

Quarter	Prices($/bu)	%Change
Q1	552.9	14.24%
Q2	639.5	15.66%
Q3	538.8	-15.75%
Q4	577.3	7.15%
Total		5%

Source: CNBC, Proshare research, Ecographics

Corn achieved a high of US$673.25/bu in April 2021, a 19.32% rise from the closing price recording in March, closely followed by May, when it posted a closing price of US$656.75/bu. Its prices also experienced their lowest price at US$534/bu in August, continuing a drop that started in May. A reversal began in September as it appreciated by 0.47%, setting up the year-end for a bullish run into 2022 (*see table 25 below*).

Table 25: The Month-on-Month Performance of Corn (%) (January-December 2021)

CORN M-O-M PERFORMANCE (JAN - DEC 2021)

Months	Prices($/bu)	%Change (M-O-M)
January	547	13.02%
February	547.5	0.09%
March	564.25	3.06%
April	673.25	19.32%
May	656.75	-2.45%
June	588.5	-10.39%
July	545.25	-7.35%
August	534.25	-2.02%
September	536.75	0.47%
October	568.25	5.87%

Months	Prices($/bu)	%Change (M-O-M)
November	567.5	-0.13%
December	596	5.02%

Source: CNBC, Proshare research, Ecographics

While corn has not gotten close to its all-time high of US$843.75/bu recorded in August 2012, there is a huge hope for corn in 2022 as we could see corn smash the price ceiling setting up a new all-time high if demand continues to outpace supply.

Sugar

In March, sugar prices dropped by -10.21%, after appreciating in the first two months, completing a 1.25% rise in the first quarter of the year. In April, the price ticked up by 14.96%, the beginning of a continuous climb from Q2 to Q3. Following the pace set by the first quarter, the second quarter appreciated by 11.01% on Q1 average pricing. The Q3 followed Q2 by equally enjoying by 11.22% from Q2 average pricing. The recovery of oil prices and demand are reasons we noticed an increase in sugar prices throughout the year, even with the depreciation of -2.86% of quarterly average pricing seen in Q4 (*see table 26 below*).

Table 26: Quarterly Average Prices of Sugar (US$/lb) (Q12021 - Q4 2021)

SUGAR QUARTER PRICES (Q1 - Q4 2021)

Quarter	Prices($/lb)	%Change
Q1	15.68	1.25%
Q2	17.41	11.01%
Q3	19.36	11.22%
Q4	18.81	-2.86%
Total		5%

Source: CNBC, Proshare research, Ecographics

A bad winter affecting Brazil, the world's largest sugar producer where they experienced frost has cut the size of sugar production and logistics. While it continued a bullish run for much of the year, prices of sugar waned in October and November both dropping at -5.26% and -5.14% respectively before reversing at about 3.28% along with its bullish trend into 2022 (*see table 27*).

Table 27: ***The Month-on-Month Performance of Sugar (%) (January-December 2021)***

SUGAR M-O-M PERFORMANCE (JAN - DEC 2021)

Months	Prices($/lb)	%Change (M-O-M)
January	15.83	2.19%
February	16.45	3.92%
March	14.77	-10.21%
April	16.98	14.96%
May	17.36	2.24%
June	17.89	3.05%
July	17.91	0.11%
August	19.84	10.78%
September	20.34	2.52%
October	19.27	-5.26%
November	18.28	-5.14%
December	18.88	3.28%

Source: CNBC, Proshare research, Ecographics

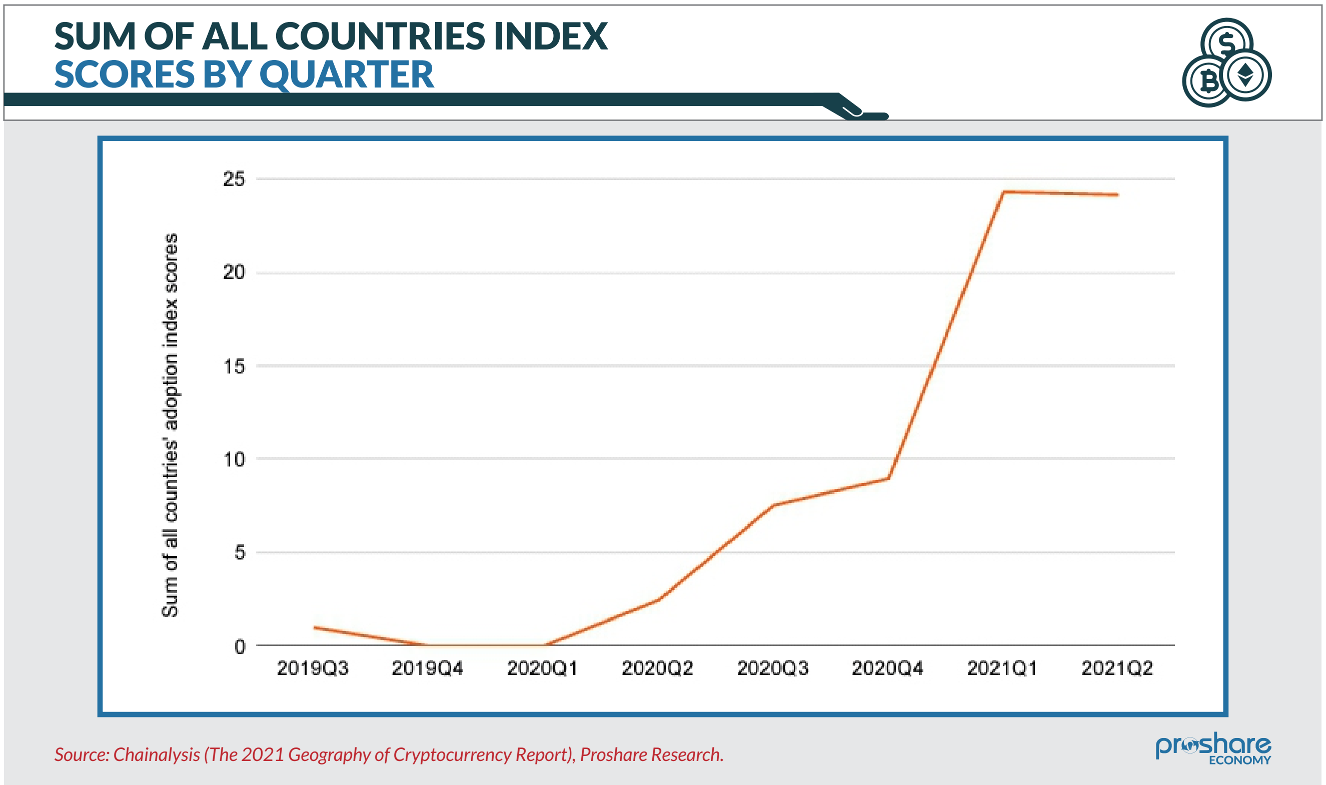
With concerns that the top producer, Brazil, could experience severe weather conditions, frosts, and fires in 2022, it is expected that this would have a drastic effect on a production where there is already a high demand for sugar globally. Sugar is made from beets and cane, where sugarcane is produced in more countries than beets, which takes about 12 – 14 months to mature for harvesting. Questions about what happens to the sugar industry with its top producer taking a hit from adverse weather conditions only point to a possible upward trend in 2022 as demand would outpace supply leading to a price surge in the price of sugar. While this surge is likely, it is less likely for the price to meet its all-time high set in the year 1974 at US$65.2/lb.

Cryptocurrency and Technology

Cryptocurrency is increasingly becoming a feature in the portfolio of many investors, particularly those of Millenials. Cryptos are built on blockchain technology, which allows users to not only discretely transact but also hedge against inflation and to invest and thereby take advantage of price swings. As in investment, the higher the risk, the higher the cryptocurrency market's return over time displayed this feature.

Data shows that at the end of Q2 2020, the adoption of cryptocurrencies globally increased from a 2.5 index score to a 24 index score in Q2 2021, showing that the total global adoption has grown by over 2300% since Q3 2019 and over 881% in the last year (*see chart 33 below*).

Chart 33: Global Adoption of Cryptocurrency



2021, being a mixed year for cryptocurrencies with several policies and milestones, the crypto assets doubled in price with increased market capitalization. Bitcoin milestone was fueled by a major development of companies accepting the digital coin as payment. El Salvador became the first country to make bitcoin a legal tender and attained its all-time high of US$69,000 on November 10. Ethereum also saw a major bullish development with the implementation of the EIP-1559 upgrade, which makes Ethereum transactions more efficient using a hybrid system of base fees to reduce the supply of token burned (*see illustration 34*)

Illustration 34: ***Large Corporation accepting Crypto Payment***

Outright Bans on Digital Currency and Its Aftermath

Freezing and banning cryptocurrency accounts was a common theme in Nigeria, Kenya, and Tanzania in 2021. But despite the reluctance of African governments to accept cryptocurrencies, the continent still appears to be the century of crypto trading, with Kenya, Nigeria, and South Africa owning the largest crypto assets globally and ranked among the top 20 global crypto adoption indexes, driven by peer-to-peer (P2P) transactions (*see table 28 below*).

Table 28: ***Global Crypto Adoption Index in 2021***

TOP 20 COUNTRIES IN 2021GLOBAL CRYPTO ADOPTION INDEX

Country	Index score	Overall index ranking	Ranking for individual weighted metrics feeding into Global Crypto Adoption Index		
			On-chain value received	On-chain retail value received	P2P exchange trade volume
Vietnam	1.00	1	4	2	3
India	0.37	2	2	3	72
Pakistan	0.36	3	11	12	8
Ukraine	0.29	4	6	5	40
Kenya	0.28	5	41	28	1
Nigeria	0.26	6	15	10	18
Venezuela	0.25	7	29	22	6
United States	0.22	8	3	4	109
Togo	0.19	9	47	42	2
Argentina	0.19	10	14	17	33
Colombia	0.19	11	27	23	12
Thailand	0.17	12	7	11	76
China	0.16	13	1	1	155
Brazil	0.16	14	5	7	113
Philippines	0.16	15	10	9	80
South Africa	0.14	16	18	16	62
Ghana	0.14	17	32	37	10
Russian Federation	0.14	18	8	6	122
Tanzania	0.13	19	60	45	4
Afghanistan	0.13	20	53	38	7

Source: Chainalysis (The 2021 Geography of Cryptocurrency Report), Proshare Research.

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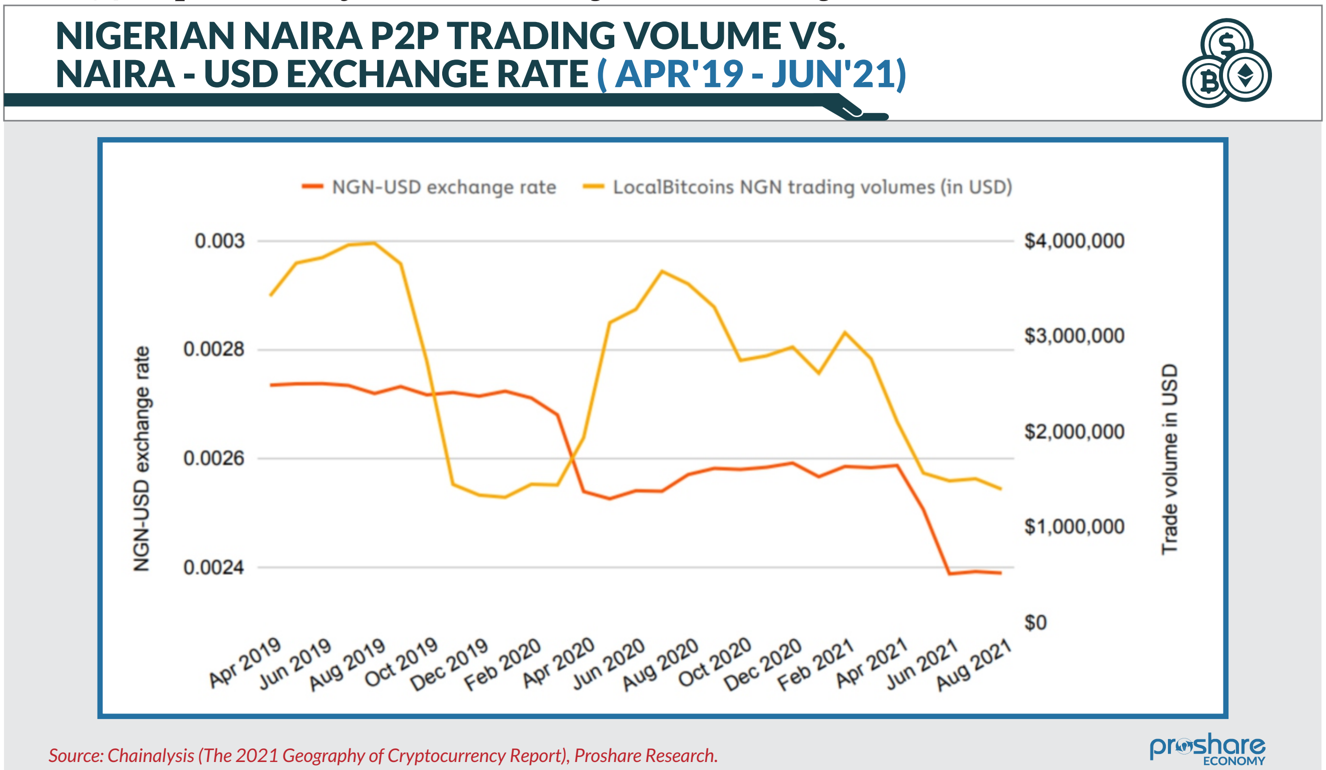
In Nigeria, CBN became more stringent as banks were directed to close accounts for peer-to-peer crypto trading. In the year, the CBN also launched its CBDC known as E-Naira, which uses the identical blockchain with cryptocurrencies.

The question remains, what is driving the demand for crypto in Africa? Despite heavy government restrictions, the volume of P2P transactions is still rising.

Nigerian investors still patronize third-party currency, using it as a hedge against rising price levels and volatility of the domestic currency. Nigerian millennials are major players in the crypto market.
Data reflects this argument; as the domestic currency continued its downward trend, there was a continuous increase in a P2P transactions, up until June 2021, where P2P transactions started to decline. Although market operators continue to report a continued increase in crypto transactions, investors use stable coins to hedge against inflation and currency volatility (*see chart 34 below*).

Chart 34: Depreciation of the Naira and higher P2P Trading Volumes

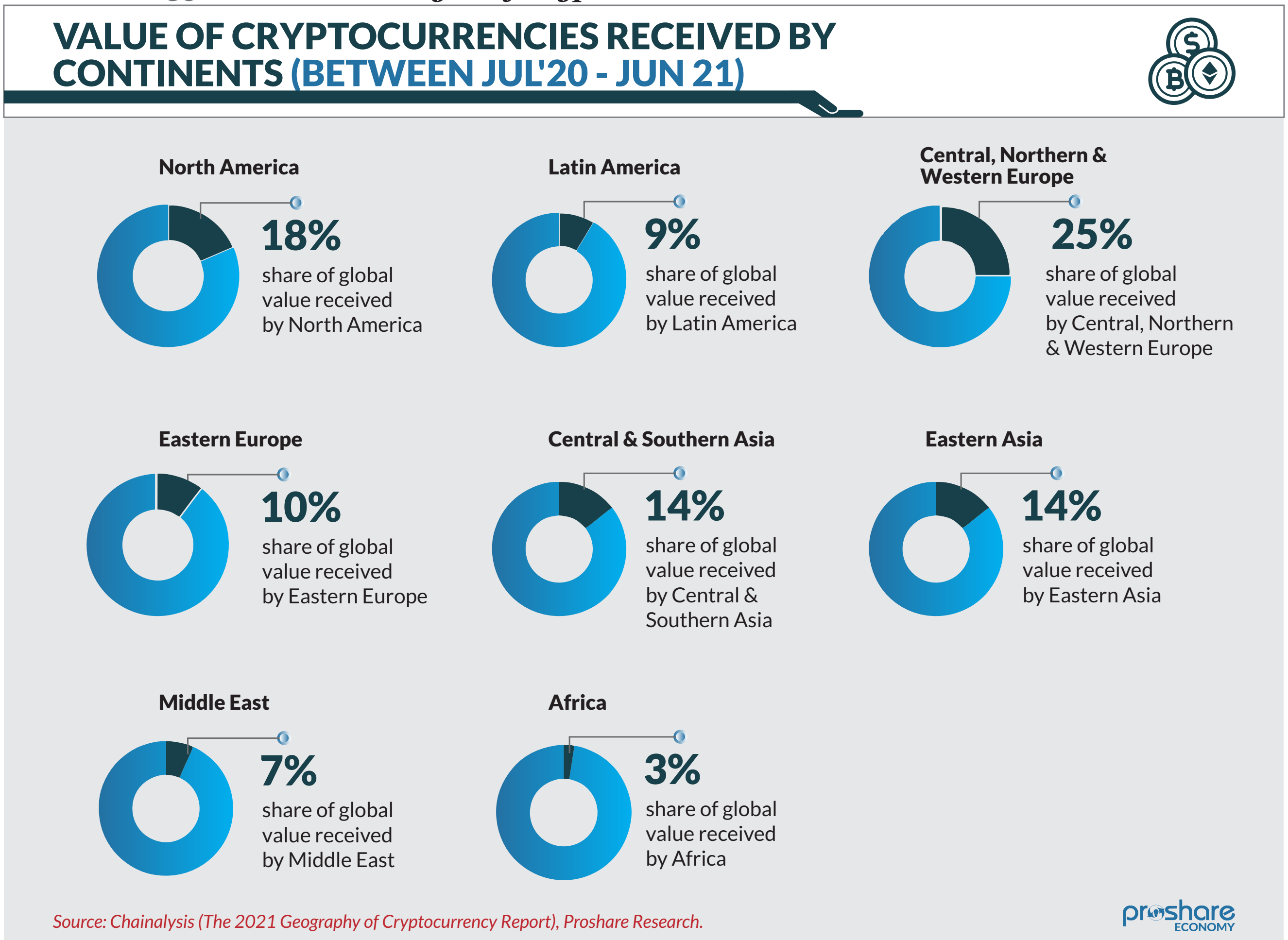


Crypto By Regions

Between July 2020 and June 2021, Africa received US$105.6billion worth of cryptocurrency and was positioned as the smallest crypto-economy having a 3% share of global value. Nonetheless, Africa is the third fastest-growing cryptocurrency economy, with a larger share of transactions made from retail-sized transfers than any other region.

With this low record, the economy is still not considered a helm of praise; the cryptocurrency market in the economy has grown over 1200% by value compared to what was received in the previous year. Kenya, Nigeria, South Africa, and Tanzania have the highest adoption level of cryptocurrency in Africa (*see illustration 35*).

*Illustration 35: **Locational Analysis of Cryptocurrencies***



Can Cryptocurrency Be Regulated?

The world is changing, and the new normal is upon us; technology has accelerated the change in our investment decisions and the continued acceptance of crypto.

The Cryptocurrency future is still very much in question; critics see risk and not a stop to the nefarious acts committed through the blockchain.

In the United States, President Biden established mechanisms and reporting requirements on crypto without imposing an outright ban. Digital currency is treated as a financial service through a financial crime enforcement network (Fin Cen) and taxable property through internal revenue services.

Furthermore, cryptocurrency is considered as a tax base in South Korea; the citizens are compelled to pay 20% tax on cryptocurrencies exceeding 2.5 billion won or US$2300, which is expected to be paid in the fiat currency through the exchanges.

The outlook for the crypto space is higher levels of regulations of the market in 2022, regulators are excepted to study and develop recommendations on cryptocurrency including its implications for monetary policies, consumer protection, research and development, increase in the price level, and greater adoption of the currency.

In harnessing the power of crypto and blockchain technologies, banks and crypto exchanges will be more efficient and transparent to customers and generate revenue for economic agencies.

Crypto returns: A glance at the market

A retrospective look at the market shows that the crypto market operates on the risk trade-off principle - the higher the risk the higher return, many high and low trends. 2021, bitcoin reported a 60% return year-on-year; compared to the preceding year that gave a return of 30%, other major altcoins also report a double-digit return. An investment of US$1000 on Solana coin (valued at N450,000) yielded a return of N64,026,200 (valued at N570) and was mainly due to a change in the value of naira and increase in the price of Solana (*see illustration 36 below*).

*Illustration 36: **Year to Date Returns on Major Cryptocurrencies in 2021***

RATE OF RETURNS ON MAJOR CRYPTO CURRENCIES

	2020	2021	ROI
Bitcoin	28923.63	46216.93	60%
Ethereum	736.42	3676.23	399%
Binance coin	37.3	511.4	1271%
Solana	1.5	169.99	11233%
Cardano	0.181	1.308	623%
Matic	0.017	2.524	14747%
Fantom	0.0169	2.2489	13207%

Source: CoinMarketCap, Proshare Research

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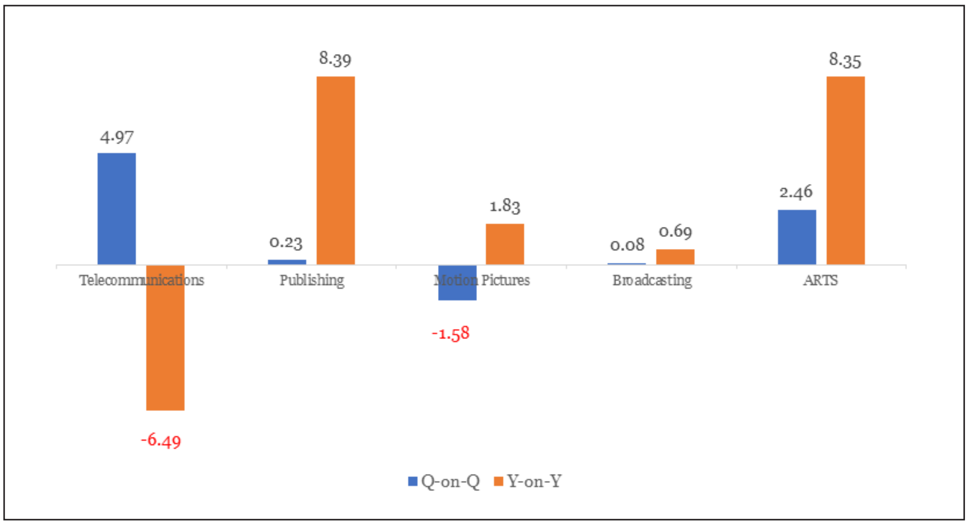
Sector's Contribution to GDP

The increasing globalization of technology has assumed a role in Nigeria's economy in recent years, the sector outperformed against some sectors and was considered a major driver of Nigerian economic growth looking at its performance in 2020. However, the information and communication sector in 2021, declined year-on-year, the sector recorded a year-on-year (Y-on-Y) dip in Q3 2021, it fell by -4.90% to 9.66% against 14.56% in the corresponding period of the previous year. On a Quarter-on-Quarter (Q-on-Q) basis, the sector attained a growth of +4.11% over Q2 2021.

Breakdown of the Component

ICT services had the highest growth rate amongst other sub-sectors in the sector, it was up Q-on-Q by +4.97% in Q3 2021 to 10.87% from 5.9%. The sub-sector fell on a Y-on-Y basis by -6.49% from 17.36%. The publishing sub-sector grew both Q-on-Q and Y-on-Y, by +0.23% and +8.39% to 2.62%. Motion, pictures, sound recording, and music rose Y-on-Y by +1.83% from 1.61%% in Q3 2020 to 3.44% in Q3 2021. In the quarterly reports, the sector slipped by -1.58% after attaining a growth of 5.02% in Q2 2021. Broadcasting components grew slightly both on a Y-on-Y and Q-on-Q basis. The sector achieved an increase of +0.08% and +0.69% respectively. Arts, entertainment, and recreation sectors ranked the second-highest Y-on-Y, it grew by +8.35% to +2.46% in Q3 2021 from a decrease of -4.67% Q3 2020 also swerved by +2.46% Q-on-Q (*see chart 35 below*).

Chart 35: Q-on-Q & Y-on-Y Contribution of the ICT Sector to GDP (%)



Source: NBS, Proshare Research.

Major Trends in the Domestic Tech Space

Chaka was the first digital Sub-Broker licensed by the Securities and Exchange Commission (SEC); this came after the digital company received an interim order from the Investment and Securities Tribunal (IST). In Mid-December of 2020, Fintech companies received a hard and fast rule that their activities are contrary to the laws and regulations governing securities in Nigeria.

Nigerians who used such platforms and saw the innovation to purchase foreign shares in the country; were frustrated by the regulator's actions, especially those who had purchased shares on such platforms.

With the inflexible hands of rigidity, Chaka made an effort to ramble its objectives by obtaining a digital platform license from the SEC, enabling it to operate as a digital investing platform for businesses and individuals in the country and outside the country.

The milestone came on the heel of a partnership with Trading View, a world-leading online charting platform to spot investment opportunities in global markets. Which enables pro-trader and businesses across Africa to access advanced tools for effective trading analysis, real-time trading ideas, personalized onboarding, and account support.

5G- Jump Starting future Interconnectivity

A ship in port is safe, but that is not what ships are built for. Sail out to sea and do new things – ***Grace Hopper.***

On the pillar of growth, profitability, and innovation, MTN Nigeria communication Plc successfully acquired one of the two 1000MHZ spectrum licenses in the 3.5GHz spectrum band actioned by the Nigerian Communication Commission (NCC) to achieve the goal of the Nigerian National Broadband Plan (2020-2025).

The 5G mobile network technology is expected to offer faster data speeds and lower latency, allowing several devices to be connected at one go and enabling seamless communication and interconnectivity between intelligent devices and digital transformation of industries.

Case Study

MTN Nigeria

MTN Nigeria's 9months 2021 unaudited results reflect resilience as revenue and earnings rebound, majorly on the back of increased total debt stock. The gearing ratio shows that the bulk of the capital structure of the Telco is made up of debt. Analysts expected most companies to take advantage of the global liquidity glut, both local and international, to take on more debt and drive faster corporate growth.

Key Highlight

- Revenue rose by +23.62% from N975.76bn in 9month 2020 to N 1,206.26trn in 9month 2021.
- Cost of sales surged by +11.86% Y-on-Y from N179.21bn in 9month 2020 to N200.47bn in 9month 2021.
- Operating profit grew by +36.27% from N307.01bn in 9month 2020 to N418.35bn in 9month 2021.
- Finance income dipped by -41.28% Year-on-Year (Y-on-Y) to N7.01bn in 9month 2021.
- Finance cost fell by -3.12% from N107.36bn in 9month 2020 to N104.01bn in 9month 2021.
- Profit before tax advanced Y-on-Y by +51.87% to N321.35bn in 9month 2021.
- Profit after tax grew Y-on-Y by +52.74% to N220.31bn in 9month 2021.
- Basic and diluted earnings per share rose by +52.61% of N10.82k in 9months 2021.
- Mobile subscribers declined by 7.5 million in 9month 2021 to 67.5m.
- Active data users increased by 2.5million in 9months 2020 to 33.2m in 9months 2021.
- Total asset significantly grew Y-on-Y by +19.01% to N2,100.19trn in 9month 2021.
- Total debt dipped by -3.21% to N324.58bn in 9month 2021.
- Total equity significantly grew by +52.74% in 9month 2021.

Rays of sunshine

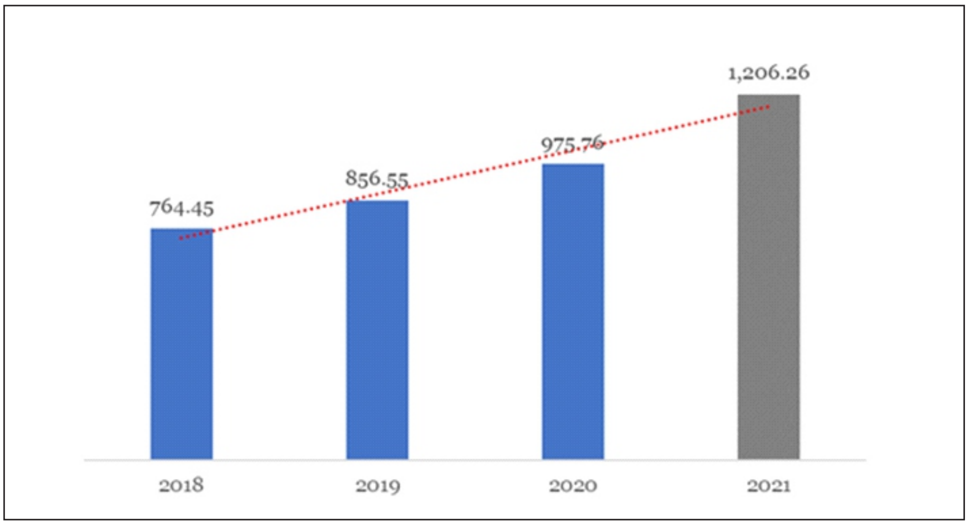
Turnover

Having maintained an upward trajectory growth, the mobile telecom recorded double-digit growth in its turnover. Sales revenue was up by +23.62% Y-on-Y attaining an all-time high digit of N1.2trillion in

9month 2021. Y-on-Y earnings generated from data business surged by +51.6%, SMS charges spiked by +301.57%, interconnect and roaming grew by +27.33%, revenue from voice grew by +9.23%. In comparison, revenue from the sale of handsets and accessories dipped by -2.36%.

Nevertheless, all company business segments improved in the period, MTN Nigeria Consumer business unit grew by +26.06%, enterprise business unit rose by +8.16%, and wholesale business unit surged by +8.16% (*see chart 36 below*).

Chart 36: MTN Nigeria's YTD Revenue 9M 2018 - 9M 2021 (N'bn)



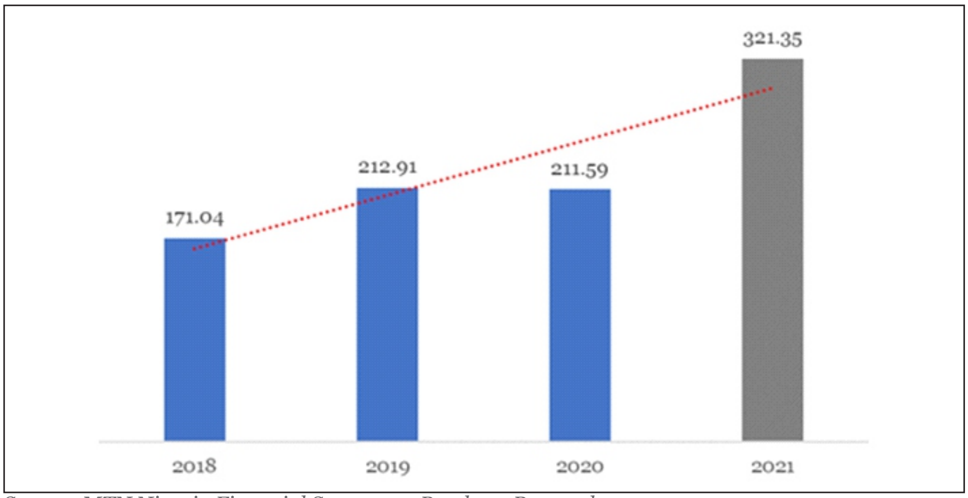
Source: MTN Nigeria Financial Statement, Proshare Research

Profit Before Tax

The technology company's profit before tax spiked by +51.87% to N321.35bn in 9months 2021 compared to a -0.62% fall in 9 months 2020.

Finance income tumbled by -41.28% to N7.01bn in 9months 2021 as interest income on amortized cost investments fell by -33.33% Y-on-Y. Finance cost fell marginally by -3.12% in 9months 2021 (*see chart 37 below*).

Chart 37: MTN Nigeria's Profit Before Tax 9M 2018- 9M 2021 (N'bn)



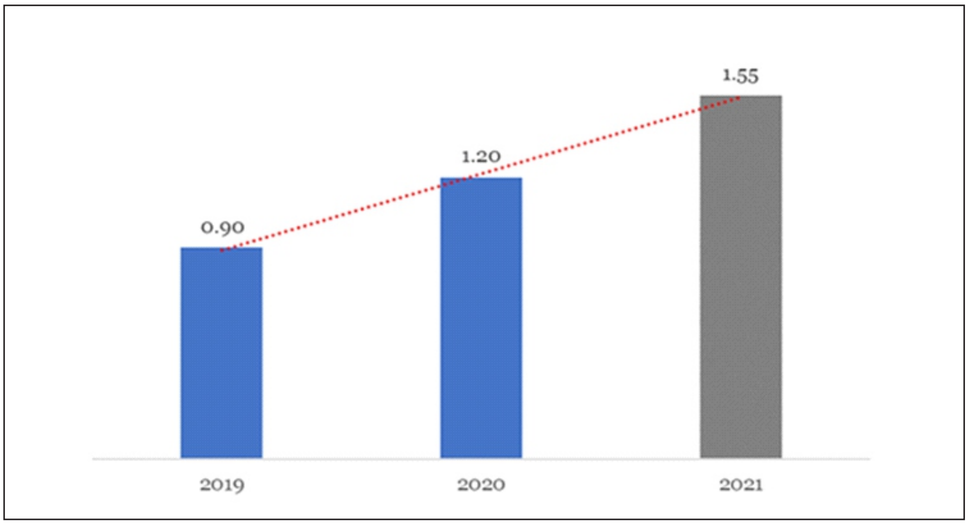
Source: MTN Nigeria Financial Statement, Proshare Research

Current Ratio

The nine-month result of the telecommunication company showed a +29.38% spike in current assets and a -3.21% dip in short-term liabilities; however, data shows that the telco can quickly meet its short-term obligations.

With a high profitability ratio, the company saw the current ratio swerve to 1.55 from 1.20 in 9months 2021, representing a +29.38% growth. Analysts believe that the higher the ratio, the more capable it is of offsetting debt obligations (*see chart 38 below*).

Chart 38: MTN Nigeria's Current Ratio 9M 2019 - 9M 2021



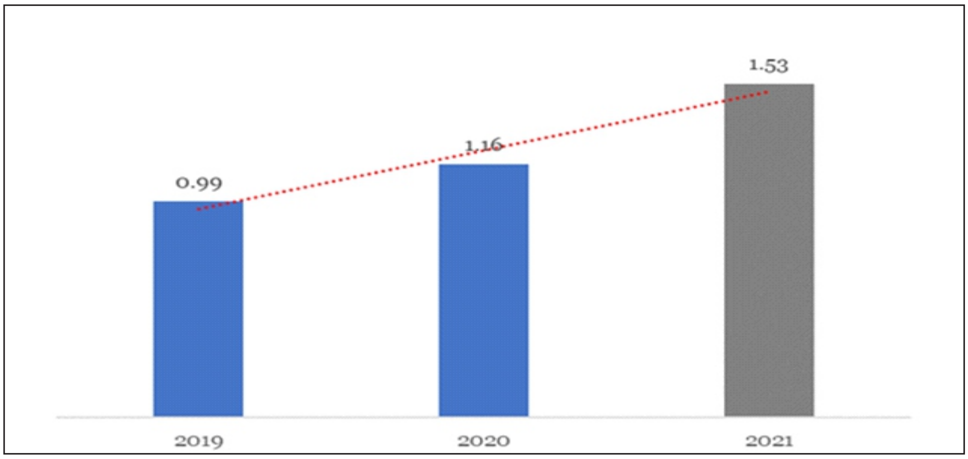
Source: MTN Nigeria Financial Statement, Proshare Research

Acid Test Ratio

Growth in the acid test ratio has made analysts believe that the company can use its quick asset to settle its short-term liabilities without including inventories.

However, inventories were up +359.36% in 9months 2021; the acid test ratio surged by +32.35% in 9months 2021. The ratio stands at 1.56 in 9month 2021 (*see chart 39 below*).

Chart 39: MTN Nigeria's Acid Test Ratio 9M 2017 - 9M 2021

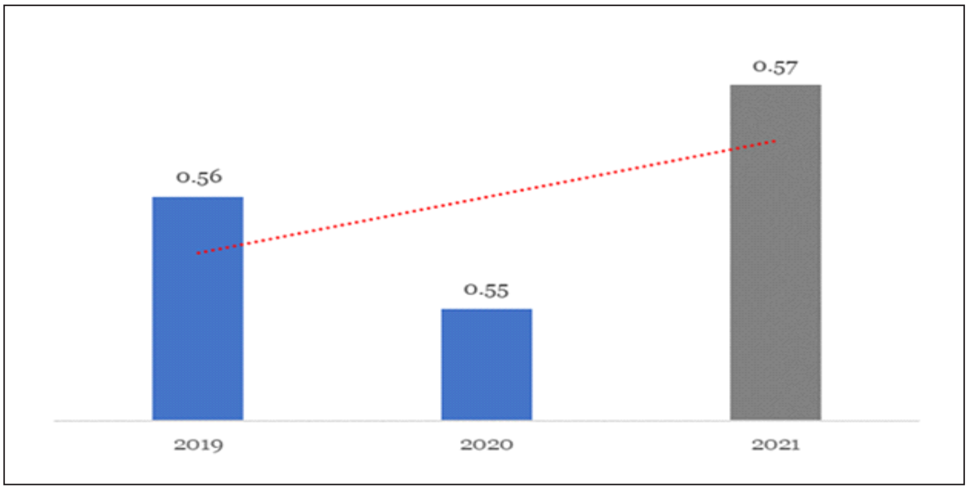


Source: MTN Nigeria Financial Statement, Proshare Research

Asset Turnover Ratio

The rise in the efficiency ratio resulted from the growth in revenue and asset. Total assets significantly grew by +19.10% from N1.76trn in 9month 2020 to N2.1trn in 9month 2021. Revenue also spiked by +23.62% in the same year. This rise in asset turnover ratio reflects the efficiency of the company's assets in generating revenue (*see chart 40 below*).

Chart 40: MTN Nigeria's Asset Turnover Ratio 9M 2019 - 9M 2021

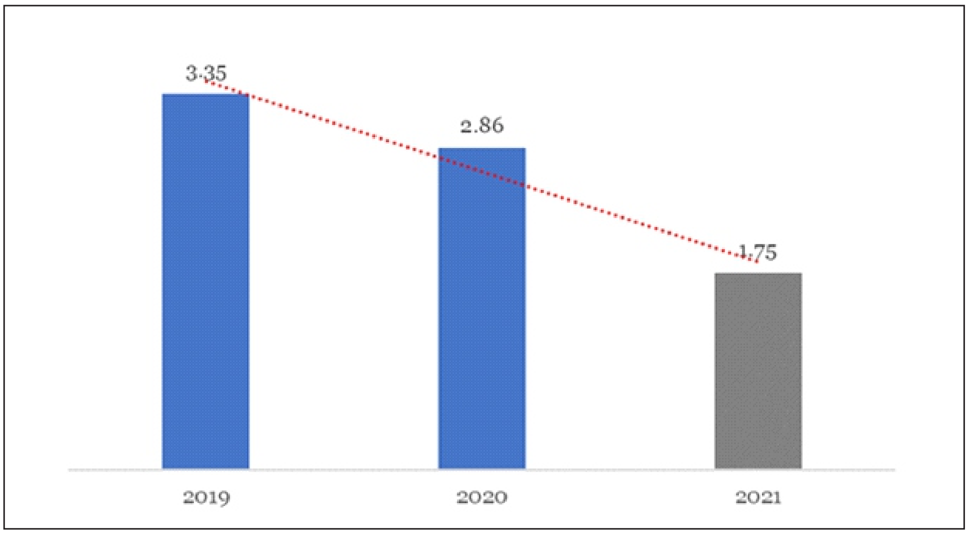


Source: MTN Nigeria Financial Statement, Proshare Research

Leverage Ratio

The company's leverage ratio snudged down by -38.88% Y-on-Y from 2.86 in 9month 2020 to 1.75 in 9month 2021. Total debt dipped by -3.21% in 9month 2021, and equity spiked higher by +58.37%. However, the 9month 2021 financials of the technology company revealed that the company is heavily financed by debt (*see chart 41 below*).

Chart 41: MTN Nigeria's Leverage Ratio 9M 2019 - 9M 2021

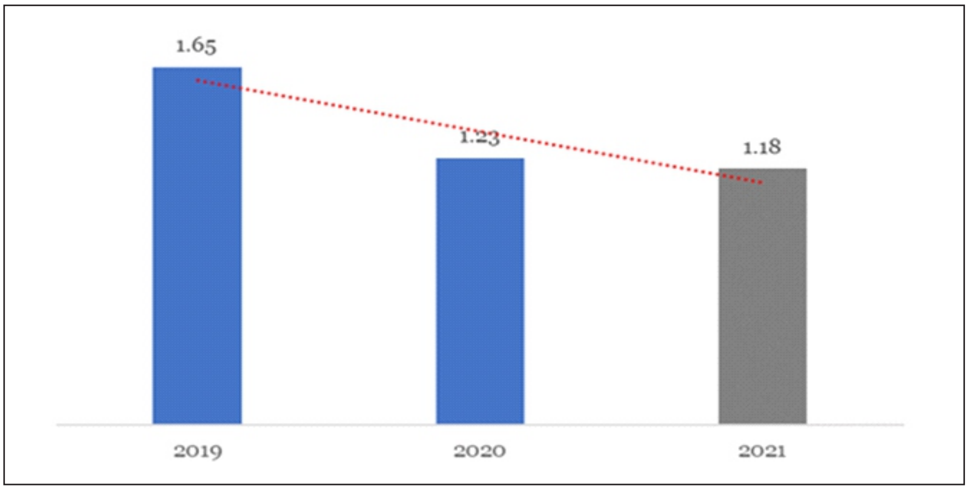


Source: MTN Nigeria Financial Statement, Proshare Research

Return on Equity

Return on equity fell in 9months 2021, the second consecutive decline between 2019 and 9months 2021. ROE fell by 356base points to 118.45% from 122.82% in the 9months 2020. Equity of the company significantly grew by +58.37% in 9month 2021 compared to +29.54% in 9month 2021, net income also climbed by +52.74% in 9month 2021 (*see chart 42 below*).

Chart 42: MTN Nigeria's Return on Equity 9M 2019 - 9M 2021



Source: MTN Nigeria Financial Statement, Proshare Research

Outlook

With the company receiving an Approval-in-Principle (AIP) for a payment service bank (PSB) and final approval for the running of the business is expected, top and bottom-line earnings are projected to improve. This will also strengthen the company's position as a market leader. According to CEO Karl Toriola, the company anticipates a return to positive net additions in Q4 2021 as more of their acquisition centers is activated while building on the momentum from Q3 to deliver a service revenue growth in Q4 2021.

> ***"Return on equity fell in 9months 2021, the second consecutive decline between 2019 and 9months 2021."***

Transitioning Scenarios: 2022 Outlook & Assumptions

Fiscal Outlook

The assumption for oil prices in 2022 was upwardly reviewed by the House of Assembly to US$62/b, this is despite uncertainties in the international crude oil market. Although Oil prices are expected to come in around US$75/barrel, our Analysts believe that the federal government's actual deficits could still, in a base case, rise in 2022 if the Supreme court delivers its judgment on the appropriate authority to collect VAT in favor of States. At the level of Sub-Nationals, the fiscal shock in some states could require bail-outs from the federal government. According to the approved budget, the N17.4tr budget is expected to culminate in an N6.25tr budget deficit. And while it is preferable to run deficits to smoothen the business cycle, the choice of revenue-generating projects, the efficiency of public spending, the cost of servicing and repaying the debts have constituted pain points in this regard.

Recurrent expenditure would continue to account for a chunk of government spending; likewise, despite efforts by the current administration to manage personnel costs through a halt in recruitment into MDAs, Personnel costs would still take up more than half of non-debt recurrent spending. In the specific case of the 2022 budget, the shopping list presented by the Nigerian Population Commission (NPC) and the Independent National Electoral Commission (INEC) contributed to the larger spending. INEC, in preparation for the 2023 polls, requested an additional N305bn to its annual N40bn budget to execute the 2023 general elections.
While the planned removal of subsidy on PMS and price regularisation of electricity tariffs could help reduce actual deficits, there are concerns about the likelihood that resistance from Union can stall the plan, with implications for debt service cost. While 3.8tr was set aside for debt servicing, the country's debt to the revenue which stood at 89% as of December 2020 before the country's debt profiled ballooned, could reach 395% in 2022 if revenue underperforms. This proposition is made more credible by the recent streak of operational shortfalls in the oil sector.

With the already high inflation, labor unions are expected to maintain their resistance to the plan to remove subsidies, this may, on the other hand, compel the government to retain subsidies, a situation which would culminate in an effective fiscal balance to GDP ratio over the 3.5% stipulated in the Fiscal Responsibility Act (2007). Even though the 5,000 Transport subsidy is touted as a more allocatively efficient subsidy than the PMS subsidy (which primarily benefits the rich), the implications for the government spending are almost the same.

The federal government plans to remove the transport subsidy after six months, by which time the Dangote Refineries may have become operational. The outlook is, however, befogged by a lack of credible information about progress with the construction of the entrepreneur's refinery. By removing the PMS subsidy, the government would save over N115bn monthly; however, if the pump price of PMS is allowed to rise, it could reach up to N340/liter, which could worsen the standard of living and result in economically disruptive protest and demonstrations across the country.
At the same time, the controversy generated by the suit filed by the government of Rivers State over the apposite Tax authority to collect Value Added Taxes (VAT) and to which the government of Lagos State has also been joined represents a potential downside risk to government revenue at the Federal level. If the court judgment so favors thus State Inland Revenue Service to collect taxes in its state, the current framework which limits state governments' entitlement to half of VAT earning could be replaced with one that allows them to retain all of the earnings generated from their jurisdictions. Even the Federal

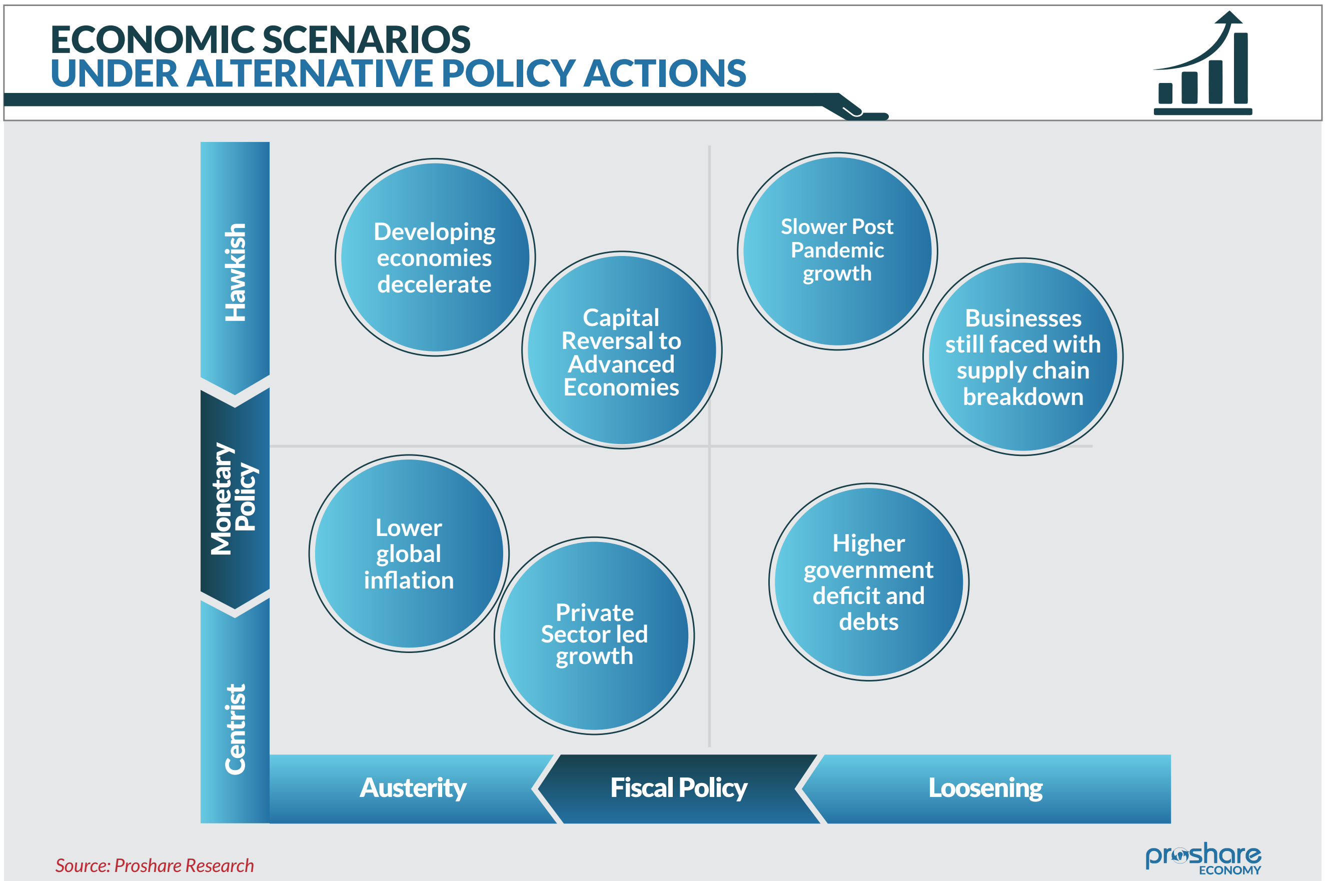
government stands to lose from an unfavorable judgment, the more significant impact on states with particularly low IGR, which are bound to record revenue shocks in the near to medium term.

Monetary Outlook: Transitioning by Halves

The Central Bank of Nigeria's centrist MPR seemed to have yielded positive results with an average inflation rate moderating to 17.1% and an average real GDP growth rate of 3.7%, provided that inflation data are indeed credible and that the relative price stability seen in the second half of the year was not wholly on account of a low base effect the outcomes are modest. Taking a cue from several advanced economies, the CBN adopted a heterodox monetary policy that tinkers with liquidity through alternative measures. While the MPC rate has been retained at 11.5% by the CBN since September 2020, the maximum lending rate is closer to 30%.

Despite a somewhat hawkish CRR, Credit growth has averaged 20% over the last three years. The loan-to-deposit ratio (LDR) would likely remain at 65% to compensate for the relatively high CRR of 27.5%. Judging by the 282nd MPC communique Benchmark rate would probably be retained at 11.5% in the first quarter of 2022 to assess further the global transition to more normalized monetary policy measures. Targeted Credit Facilities would still be employed, particularly so if the Omicron variant necessitates another round of lockdowns. (*see illustration 37 below*).

Illustration 37: Monetary and Fiscal Policy Matrix



Omicron Variant of Covid-19- Negative risk

With the reintroduction of travel restrictions by many nations as part of measures to contain the spread of the new strain of the Covid-19, tourism and aviation may be off to a shaky start in the new year. As a result of the development and escalating instances of Omicron might stifle the expansion of the global economy.

Moody's Analytics downgraded his first-quarter U.S. gross domestic product forecast to 2.2% growth from 5.2% as he "can see the economic damage mounting going into the first quarter. In Europe, deliberations are ongoing on whether or not the government needs to put new limits into the new year. Economists have had a hard time telling the degree of the impact Covid-19 would have on economies throughout the pandemic, including in the U.S., where changes in the labor market have inundated the government and forecasters. Generally, they expect Omicron to push economic activity from the first quarter into the second, with a smaller impact than from prior pandemic waves.

Sectoral Outlooks

With the fading effect of a shallow base that held sway for most of 2021, growth in most sectors of the Nigerian economy is expected to moderate. The upgrade in the outlook in Nigeria's oil production suggests the likelihood of a better performance in 2022. Nevertheless, difficulties arising from saboteurs and production downturns threaten growth. As such, the industrial sector is expected to grow only marginally Y-o-Y in 2021 due to shrinking oil output and the shrinking of Manufacturing both on account of higher energy cost and the difficulty in accessing foreign currency in the official window. Improved performances in the construction, power, and utility sector, however, complement the sector's outlook

Proshare expects that the manufacturing sector would gain from projected growth in population, and the price and perhaps income inelasticity of processed food like wheat and bread. However, implicit devaluation and subsidy removal could raise input costs.

Meanwhile, with the pre-existing security related to Insurgency and banditry in the Northwest and North-East, while pastoralists-herders clashes have typically obstructed planting season, the Agricultural sector's performance could remain underwhelming the new year despite CBN's intervention efforts. News reports estimate that over 3 million farmers have benefitted from agricultural interventions.

However, insecurity could remain a significant risk to output growth apart from adverse weather conditions. Thus, we expect the Agricultural sector to expand by 2.1% Y-o-Y in 2022. Household spending would be restructured due to rising food prices and limited growth in Income in 2022.

In the services sector, Proshare expects growth of 2%-3% Y-o-Y in 2022, due to a slower than expected start to the year particularly in terms of trade. The slow pace of progress with the implementation of the AfCFTA rules of origin could stifle the gains from open borders. The menace of smugglers continues to undermine trade output while the cargo clearing logistics at the ports recently worsened by the collapse of the e-call up system (Eto) also poses downside risks to the growth of the sector in 2022. The Financial and Insurance sector is expected to continue to post a strong performance in 2022, with several high-profile mergers and acquisitions in the works. Meanwhile, the ICT sector is likely to witness expansion in 2022 on account of increase in the number of subscribers and the deployment of the 5G technology; these suggest the possibility that the trade sector may, for the first time in 2022, contribute less to the country's GDP than the ICT sector. Network subscriptions had suffered from the NIN-SIM linkage exercise. Going forward, growth in the ICT sector is expected to come in between 9% and 13% in 2022. Conversely, currency depreciation and global inflation would constrain growth in the real estate sector to between 2% and 2.5%.

Economic Assumptions

- Real GDP growth would come in between 2.5 and 2.7% as base effect wanes, but crude oil rallies and government spending remains as a support.
- Inflation would remain double digit with higher electricity tariffs and newly introduced Levies.
- Capital Importation would be negatively affected by Policy uncertainty associated with the Pre-election Year.
- Trade balance would be supported by rising crude-oil price although crude-oil production would remain a concern.

Government

- **Budget Overrun**
  Actual deficit would exceed planned fiscal deficits with the likely retention of Subsidy and Pre-election year spending.
- **No new Taxes**
  Despite the Strategic Revenue Growth Initiative (SRGI) targeting a raise in Tax revenue to GDP ratio from 7% to 15% by 2023, the government is unlikely to levy any new taxes as election approach.
- **Crude oil price**
  Crude Oil Price would rise to support External liquidity although double digit inflation would impose pressures in the parallel market.
- **MPR to be retained till half year**
  MPR would be held at 11.5% till middle of the year after which the CBN may raise rates in response to Monetary Policy Normalisation Policy.

Household

- **Higher Cost of Manufactured Food and Beverage**
  Manufactured items especially all forms of beverages would cost being that new levies have been imposed on carbonated drinks a substitute good. Higher energy cost and lack of accessibility to FX would raise the cost of production.
- **Job Opportunities**
  Unemployment would be more than 30% although highly skilled individuals would find lucrative jobs in the tech and knowledge industry as skills such as Data analytics, Programming continue to get more sought after. Expanding sectors such as Agric and Finance would also present opportunities.
- **Cost of Housing**
  Rents could rise if the proposed monthly rents are ratified.
- **Food Prices**
  Food prices would drop at farm gate following bumper harvest, while Insecurity is expected to improve as the elections approach.

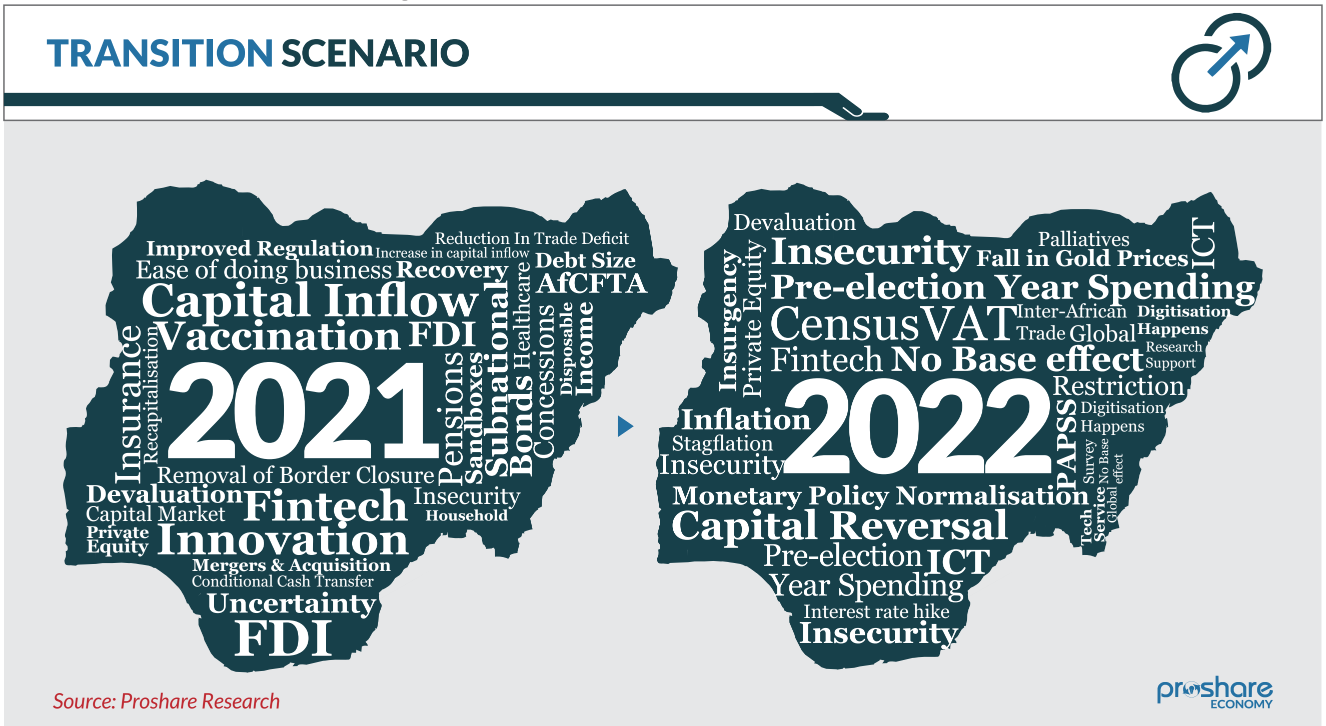
MSMES

- Distributable profit of Small, Medium and Medium Scale enterprises which are into Manufacturing would thin out due to higher energy cost.
- MSMEs Turnover would be supported by the removal of Twitter ban to digitize their Marketing this should tell on their outcomes for 2022
- More Small Businesses would vacate their business places to operate remotely or online thereby reducing their Cost of Operations.
- Outsourcing would be embraced by small business to reduce cost of operations.

Investors

- Negative real rate of returns would prevail
- CBN would maintain mandatory CRR constraining ROE
- New Mergers and Acquisitions could generate new holding companies.

Illustration 38: ***Transitioning Scenarios***



Forecasts

How the economy shapes up in 2022 would be determined by various factors—first, the Omicron variant of COVID-19 infection and the effectiveness of existing or new vaccines. Second, the speed of Monetary policy Normalisation by G7 economies and the concomitant effect on the flow of funds to emerging economies. The IMF projects global growth of 4.9%, while the OECD estimates a growth of 4.5%. For Nigeria, 2022 being a pre-election would likely see the government exceed the 3.5% fiscal balance to GDP ratio. At the same time, the transition to cleaner energy will continue to impact oil production, as a result, economic diversification of exports, and government revenue remains the single most important effort required to address Nigeria's growth challenges. To achieve these infrastructure weaknesses, unfavorable economic policies, corruption, and other institutional weaknesses which have all along discouraged investment and industrialization need to be addressed (*see table 29 & 30*).

Table 29: ***Global Economic Forecast***

2022 FORECASTS FOR THE GLOBAL ECONOMY

Global Economy	2021	2022	2023
Real GDP (%YoY)	5.4	4.5	5.3
Private consumption(%YoY)	7.1	7.5	8
Public consumption(%YoY)	3.7	4.5	5
Fixed capital formation (%c hYoY)	-7.5	11	13
Unemployment rate year-end (%)	8.8	9.2	9
Nominal GDP (EGP bn)	6,050	6,637	7,493
Nominal GDP($bn)	380	417	453
Nominal GDP(EURbn)	329	357	397
Population(mn)	102.7	105	107.4
GDP per capita ($)	3,703	3,966	4,214
Investment (%of GDP)	16	15.1	16.1
Stock of claims on other sectors (EGP bn) June	1,758	2,048	2,355
Stock of claims on other sectors (% of GDP)	38.9	40.3	41.6
Deposits (EGP bn)	4,823	5,279	5,832
Loan to deposit ratio	48.8	50.7	53.5
Prices CPI (average %YoY)	5.3	5.3	5.6
CPI (year-end)	4.9	6.5	4.7
PPI (average %YoY)	7	7.5	6.5
Fiscal balance (%of GDP)	–	–	–
Consolidated government balance	-8.2	-7	-6.2
Consolidated primary balance	0.9	1.5	2
Total public debt	94.3	92.5	89.9
Exports($bn)	28.7	27.2	30.2
Imports($bn)	70.7	57	60.7

Global Economy	2021	2022	2023
Trade balance($bn)	-42.1	-29.8	-30.5
Trade balance (% of GDP)	-11.1	-7.2	-6.7
Current account balance($bn)	-18.3	-16.6	-14.5
Current account balance (% of GDP)	-4.8	-4	-3.2
Net FDI($bn)	4.5	6.9	9.9
Net FDI (%of GDP)	1.2	1.6	2.2
Current account balance plus FDI (% of GDP)	-1.9	-2.4	-1.1
Exports (% YoY, value)	-6.3	6.7	11.5
Imports (% YoY, value)	-5.7	-6.5	6.9
Foreign exchange reserves (ex. gold, $bn)	36.3	32.3	28.3
Import cover (months of merchandise imports)	6.2	6.8	5.6
Debt indicators	–	–	–
Gross external debt($bn)	133.3	137.5	142.5
Gross external debt (%of GDP)	35.1	33	31.5
Gross external debt (%of exports)	464.8	505.5	471.9
Total debt service($bn)	13.5	14.7	13.4
Total debt service (% of GDP)	3.6	3.5	2.9
Total debt service (%of exports)	47.1	54	44.2
Interest & exchange rates	–	–	–
Broad money supply (% YoY average)	8.1	9.4	10.5
Credit growth, %	15.3	13.5	16.5
Policy rate (%) end-Jun	9.3	9.3	9.3
3-month interest rate (avg %)	11.6	9.5	9.3
Exchange rate (EGP/EUR) year-end	18.6	18.6	19.1
Exchange rate (EGP/EUR) annual average	18.4	18.6	18.9

Global Economy	2021	2022	2023
Exchange rate (EGP/$) year-end	15.7	16.2	16.9
Exchange rate (EGP/$) annual average	15.9	15.9	16.6

Source: Fitch, Proshare Research

Table 30: Nigerian Economic Forecast

2022 FORECASTS FOR THE NIGERIAN ECONOMY

Economic Indicators	2021	2022	2023
Real GDP(%YoY)	3.71	2.6	2.5
Gross national savings as a % of GDP	27.13	26.77	27.24
Total Investment as a% of GDP	30.35	29.02	29.21
Population(mn)	211.4	216.75	222.18
GDP per capita ($)	2272.84	2562.19	2861.37
Prices CPI (average %YoY)	17.1	15	13.25
Government revenue (%of GDP)	7.23	6.92	6.55
Government revenue (N' tr)	13.195	14.600	15.832
Total public debt (N'tr)	38	43.5	48.3
Total public debt as % GDP	35.71	36.49	37.34
Trade balance($bn)	-15.5	-12.49	-12.51
Trade balance (% of GDP)	-3.22	-3.25	-3.5
Exports (%YoY,)	-9.37	0.042	-1.11
Imports(%YoY,value)	-0.96	-1.94	0.68
Exchange rates (Implied PPP)(N/$)	160.6	175.97	191.7
Inflation	17.1	15	13.25
Policy rate (%) end-Jun	11.5	11.75	12

Source: Fitch, Proshare Research

Oil Market Outlook for 2022

The global oil market tightened by most metrics in 2021, but the market experienced a transitory retrieval towards the end of the year. The outlook for the oil market in 2022 is shaky on different stances.

- **Oil Demand:** We expect the impact of the Omicron variant to be mild and short-lived as scientists rap up vaccines research to contain existing and emerging variants of the Covid-19. We expect the global oil demand to strengthen in 2022 with an average growth of 4mb/d. The major driving force will be the relatively stable growth in both advanced and emerging economies coupled with the easing of supply chain bottlenecks.

- **Oil supply:** We expect OPEC to maintain its conservative approach to oil supply in 2022. The US shale producers are likely to boost production in the second quarter- when the US records lesser inventory level and difficulties restocking the Strategic Petroleum Reserves– after committing to drawing 50m barrels from the SPR to curb the rising crude oil prices.

- **Energy Transition:** Contrary to the optimism conveyed at the COP26, we expect major economies to show a disappointing push towards net-zero emission in 2022 as the global oil and gas market struggles with supply crunches due to underinvestment and more depletion in spare capacity.

- **Oil Prices:** Crude oil prices will remain elevated as oil demand recovers faster than supply. Many agencies and banks have predicted that the global oil market will remain tight in 2022, thereby raising their forecasts for oil prices at between US$70-125 per barrel. At Proshare, we expect the Brent crude price to settle around US$80 per barrel in 2022 as the global oil consumption outpace the combined slow growth in output from OPEC+ and non-OPEC producers and the US tight output. We expect oil consumption to remain strong as countries internalize the pandemic as endemic and activities return to near normal. Our forecast is premised on the expectation that the situation with oil supply may remain the same (*see illustration 39 below*)

Illustration 39: ***Brent crude price forecast (US$ per barrel)***

BRENT CRUDE PRICE FORECAST ($ PER BARREL)

Organisation	EIA	IEA	JP Morgan	Barclays	Goldman Sachs	Proshare Research
2021 Forecast	70.60	71.50	80	69	90	-
2022 Forecast	75	79.40	125	85	96.25	80

Source: Oil prices, Reuters, Proshare Research

proshare ECONOMY

- Natural gas prices will rise further in the first half of 2022, supported by the increasing adoption of gas as cleaner energy and as more economies shift from coal-powered electricity. We expect Russia's Nord Stream 2 pipeline to delay further into Q2 2022 while Europe continues to grapple with an increase in gas prices.

- The increase in oil and natural gas prices will support multinational oil companies' more robust performance, especially those in the upstream industry. However, the performance may be capped by low investment in oil-related facilities as shareholders demand more renewables in the companies' product portfolios.

- The IOCs will continue to divest assets that do not align with their strategic objectives and shareholders' value in Africa. National Oil Companies (NOCs) and independent players will deem it necessary to take up those assets in 2022.

- In Nigeria we expect the PIA to attract investment into the upstream subindustry and improve the profit margins of midstream and downstream players. However, investment inflow will be subject to the full implementation of the Act and the government's ability to resolve the existential insecurity issues across oil facilities in the country.

- We believe the PIA implementation process will dominate the better part of 2022. Thus, the country's oil production volumes may continue to suffer setbacks throughout 2022 as more IOCs declare force majeure on oil facilities due to operational issues.

- We expect the subsidy removal advocacy to persist in 2022 despite the 18 month extension. We expect uncertainty to continue to trail petroleum pricing policy in the country until the domestic refinery(s) come on stream.

- Weighing factors such as soaring gas price in the international market, the reimposition of VAT on imported gas, the retroactive tax claims on gas importers, and the novel Domestic Base Price policy on gas, we expect prices of LPG and CNG in Nigeria to remain elevated for the better part of 2022. However, **deliberate** interventions of the government may force down the prices.

- The share of renewable energies in Nigeria's energy mix will remain negligible given the sustained priority in fossil fuels by the current administration.

- We expect political campaigns and the need to gain popular support ahead of the 2023 election to undermine the operational roll-out of PIA provisions in 2022.

Conclusion

A Year with its Promises and Pains

The new year started on a slow but optimistic note, with economic momentum in 2021 spilling into 2022. Oil prices began an upward glide in January 2022 to tip over the US$90 per barrel mark as supply rigidities and rising demand dragged oil prices up. Rising oil prices mean that the country's debt service to revenue ratio would fall, given that the 2022 budget pegged oil prices at US$65 per barrel. The problem would be volume as the country produces around 1.6m bpd against the budget expectation of 1.88m bpd. The relatively low oil production volume will persist for most of the year, suggesting that the budget's revenue projection would be unmet.

The missing oil revenue targets would place the fiscal authorities in a position where they would have to raise additional domestic revenues from taxes, fees, and levies during the year, with analysts expecting to see a rise in marginal tax rates and an expansion of the tax base. Both actions would likely raise domestic prices and prompt the Central Bank of Nigeria (CBN) to either tighten the cash reserve ratio (CRR) or the monetary policy rate (MPR).

The CBN has been able to keep monetary policy unchanged over the last two years, but 2022 may be different. With elections in Q1 2023 and political activities likely to heat up by H1 2022, fiscal spending may rise significantly. If the CBN does not accommodate the rise through increased money supply, interest rates will go up, and domestic credit demand will fall. Beyond the theory of the credit market, the more likely outcome of a rise in domestic interest rate in 2022 would be further credit rationing as companies bid for the credit available at the high rates.

2022: Breaking Bad

The year 2022 will see winners and losers. The opportunities and threats the year provide insights into how players in the money and capital markets can take advantage of the lay of the economic landscape (*see illustration below*).

> ***"The CBN has been able to keep monetary policy unchanged over the last two years, but 2022 may be different"***

Illustration 40: **Threats and Opportunities in 2022**

THREATS AND OPPORTUNITIES IN 2022

DANGOTE REFINERIES

Dangote refineries would begin production in the second half of 2022, and that would help save up to $12bn in FX

PAPSS AND RIVER PORTS

The PAPSS, the launch of new ports Dangote refinery would facilitate trade, reducing the countries Trade deficit to GDP.

SECTORS TO LOOK OUT FOR

- Transport
- Trade
- ICT
- Finance

would record strong growth in 2022.

THE IMF'S $50BN TRUST FUND

The IMF's $50bn Trust fund would also shore up the reserves. Parallel premium would constrain supply of FX while the $2bn backlog.

ENERGY COSTS AND LEVIES

Manufacturers and FMCG producers would experience higher cost of energy (AGO diesel) coupled with higher levies would imply on their distributable profit.

CRUDE OIL PRICE

Exchange rate would be positively impacted by the rising crude oil price

SLOWER GROWTH

The economy is expected to grow by 2.5% to 2.7% supported by government interventions but this would be moderated by the absence of the low base effect.

MANUFACTURERS PMI

Interest rates are expected to be raised in the second half of the year in response to Monetary Policy Normalisation in more advanced economies. PMI would drag due to higher lending rate, higher public sector borrowing and other structural bottlenecks.

DOUBLE-DIGIT INFLATION

Inflation to fall to 15% exchange rate pressures would remain but insecurity and food prices would improve due to bumper harvest and preparations ahead of elections.

Opportunities Threats

Given changing global growth dynamics with Financial flows (FDI) growing faster than trade flows, Nigeria would need to look at the financialization of its national assets. The balance sheet approach to solving the country's debt challenge provides an opportunity to rethink and reimagine the country's macroeconomic policies. Indeed, recalling Albert Einstein's words, problems cannot be solved at the same level of thinking that created them in the first place. Opportunities will emerge from new perspectives and rethought strategies.

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