CHARTERED INSTITUTE OF STOCKBROKERS

Macroeconomic Outlook for 2023

30th ANNIVERSARY

Pandemic: Global Infection Rate Declines as The World Moves on…

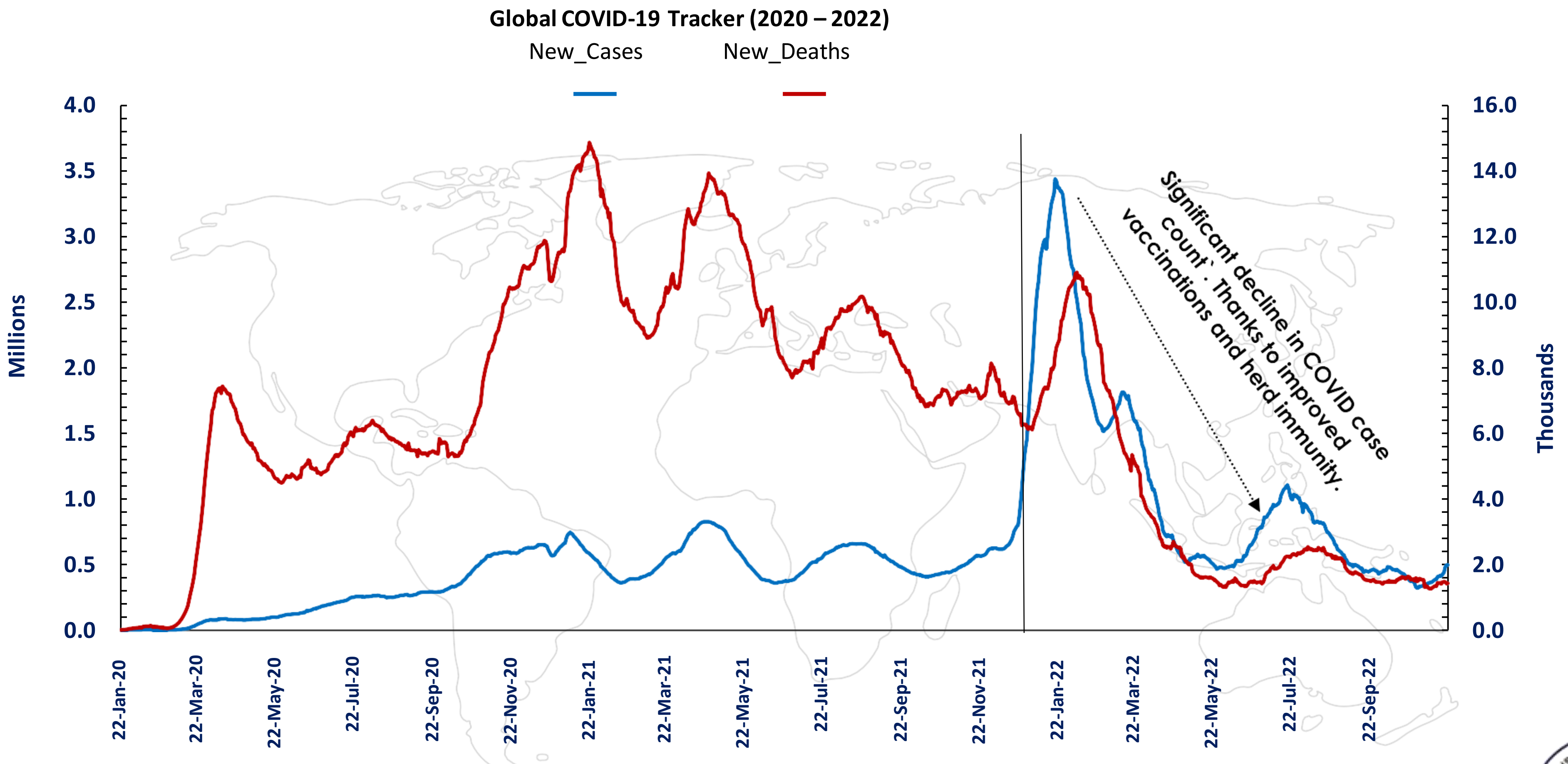
- Data shows that we have seen the worst of the pandemic, although possibilities of new deadly variants cannot be downplayed
- There is news of a resurgence in China in most of 2022 but we do not expect to see material damage as the learning curve effect sets in

Total Infected Case

636,440,663

Total Deaths

6,606,624

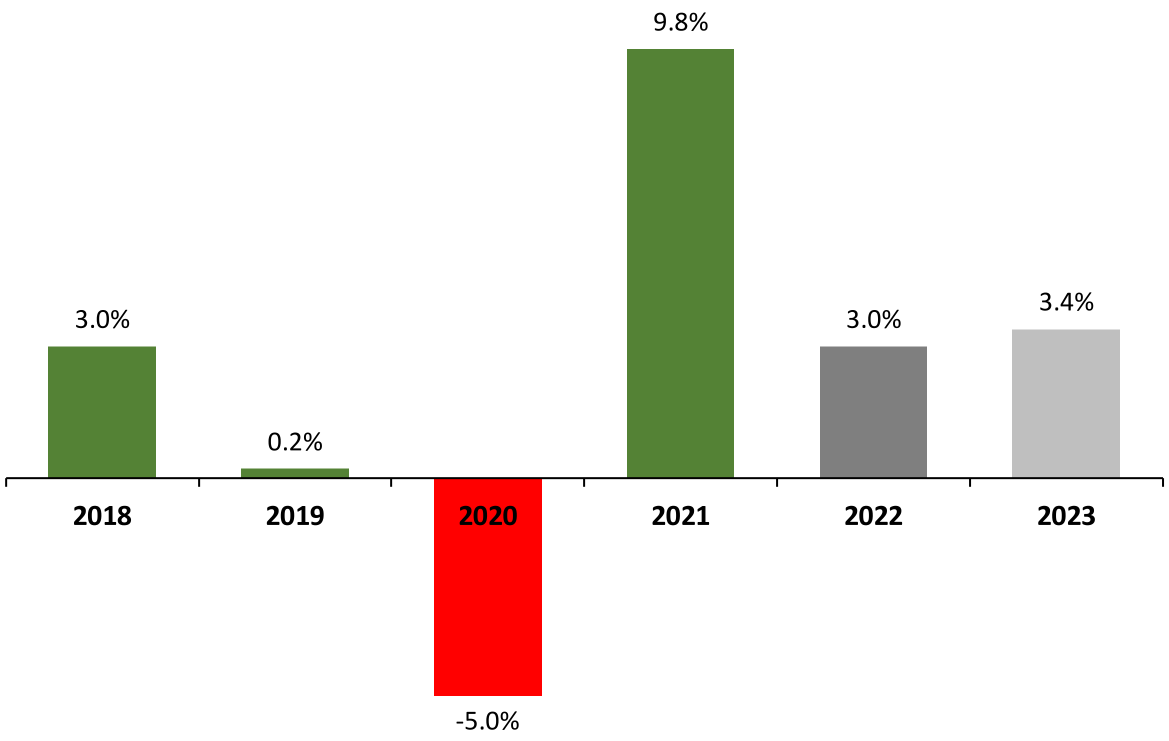


Source: OurvWorld In Data, Author's Compilation

Russia-Ukraine Conflict Puts Fragile Global Trade Recovery at Risk

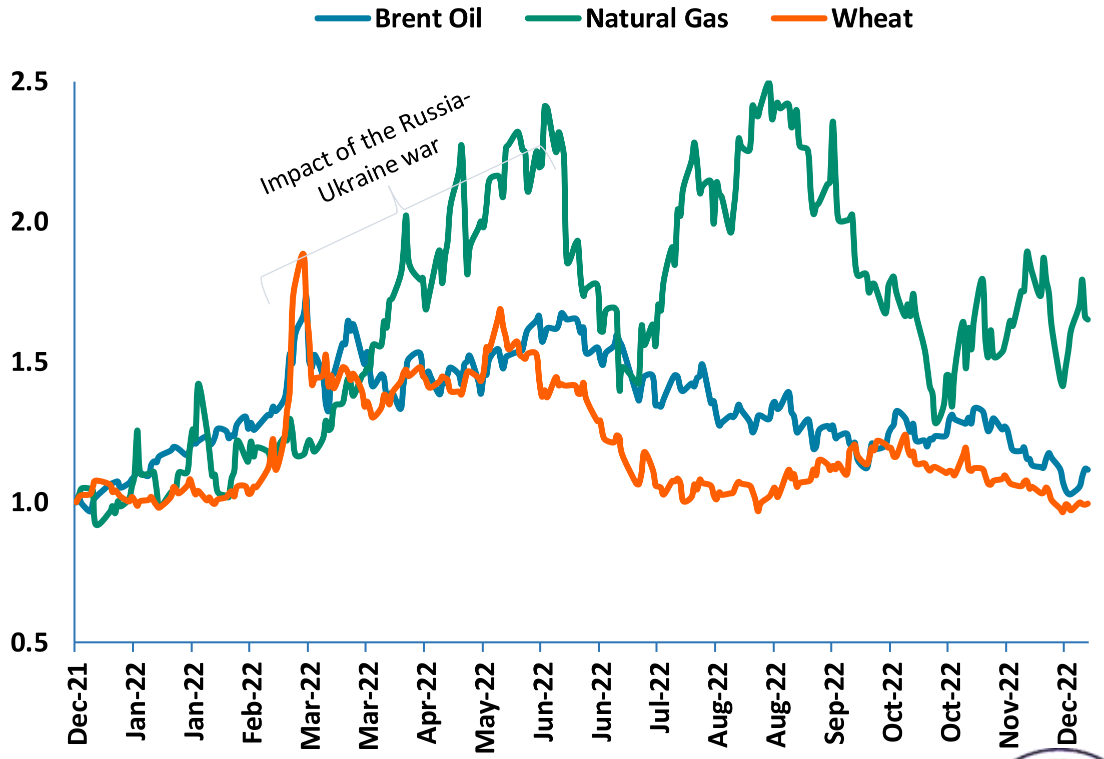
- Prospects for the global economy have darkened since the outbreak of war in Ukraine on 24th February 2022, prompting WTO economists to reassess projections for world trade over the next two years.
- World merchandise trade volume is expected to grow 3.0% in 2022 (down from 4.7% previously) and 3.4% in 2023, but these figures may be subject to revision due to uncertainty about the course of the conflict in Ukraine.

Global Trade Growth



Source: WTO, Author's Compilation

Commodity Price Trajectory



Source: Investing.com, Author's Compilation

The Great Inflation Rattles Global Economy and Markets

Global inflation closed at 8.8% in 2022 from 4.7% in 2021. It is forecasted to moderate to 6.5% in 2023

Global Inflation Drivers

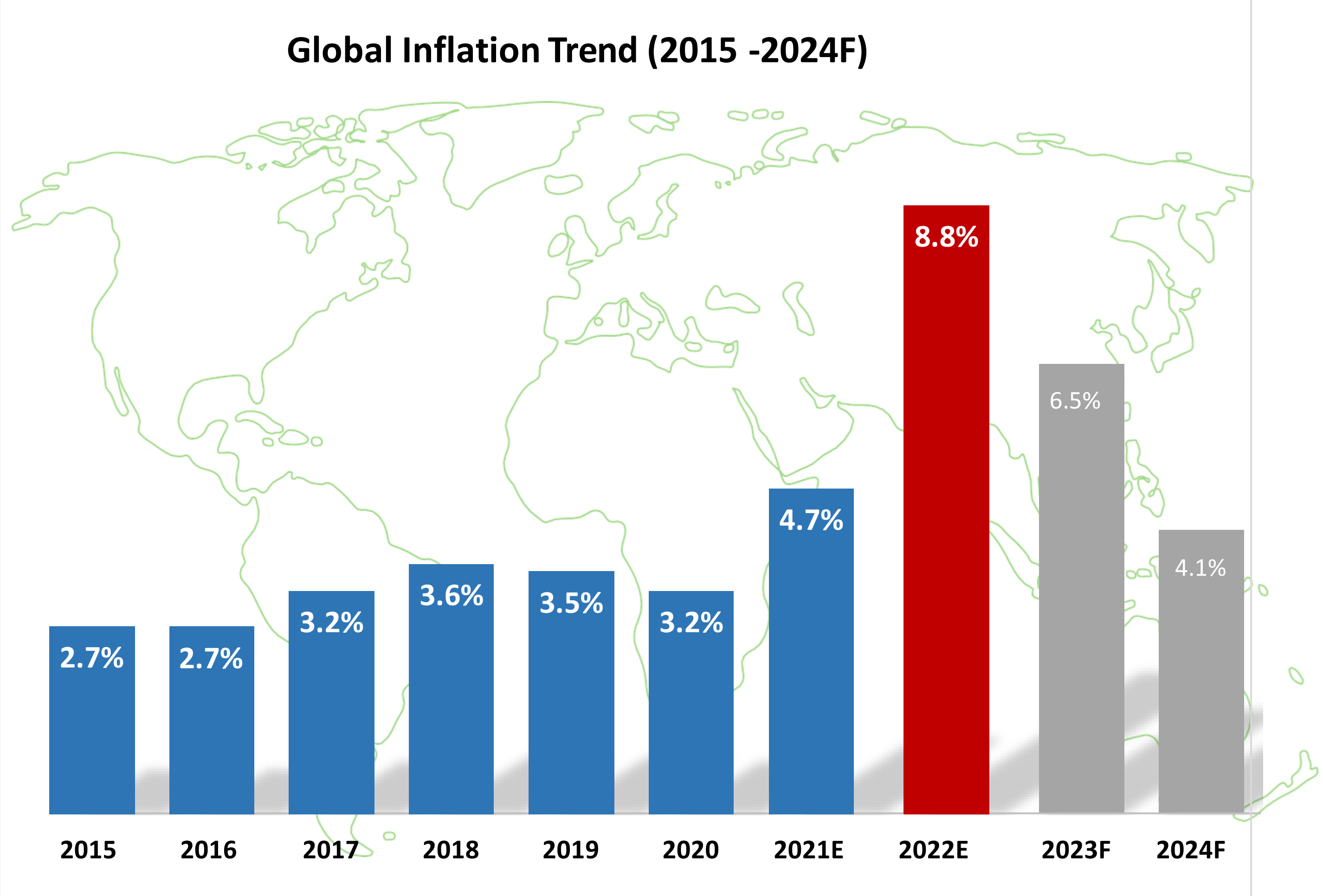
Soaring
Food & Energy Prices

Build-up in fiscal & monetary intervention (2020/2021)

Supply chain disruption especially from China

Outlook

Global inflation rose to 8.8 percent in 2022 but projected to decline to 6.5% in 2023 and to 4.1% by 2024.



Source: IMF, Author's Compilation

Central Banks Tackle High Inflation…

Global Central banks are expected to have raised interest rates 267 times by the end of 2022.

Major monetary authority's moves in 2022

Although slow to action in 2022, the ECB raised rates by 200bps to close the year at 2.0%. Further rate hikes are anticipated to battle inflation.

Russia cut key rate by 150bps to 9.50% It marks the fourth rate cut since an emergency hike from 9.5% to 20%.

Ukraine raised rate to a seven-year-high of 25% from 10%, tightening policy for the first time since the Russian Invasion.

US FED raised rate by 395bps to 4.0%. Fed expects to increase interest rates to c.5.4% by 2023, while trying to avoid a recession.

Egypt raises interest rate by 400bps to 13.25%

CBN raised rate by 500bps to 16.5%

China leaves rate unchanged at 3.65% after lowering benchmark lending rates to support economy.

BoG raised benchmark rates by 450bps to 21.5%

Brazil raised interest rate by 150bps to 13..275%

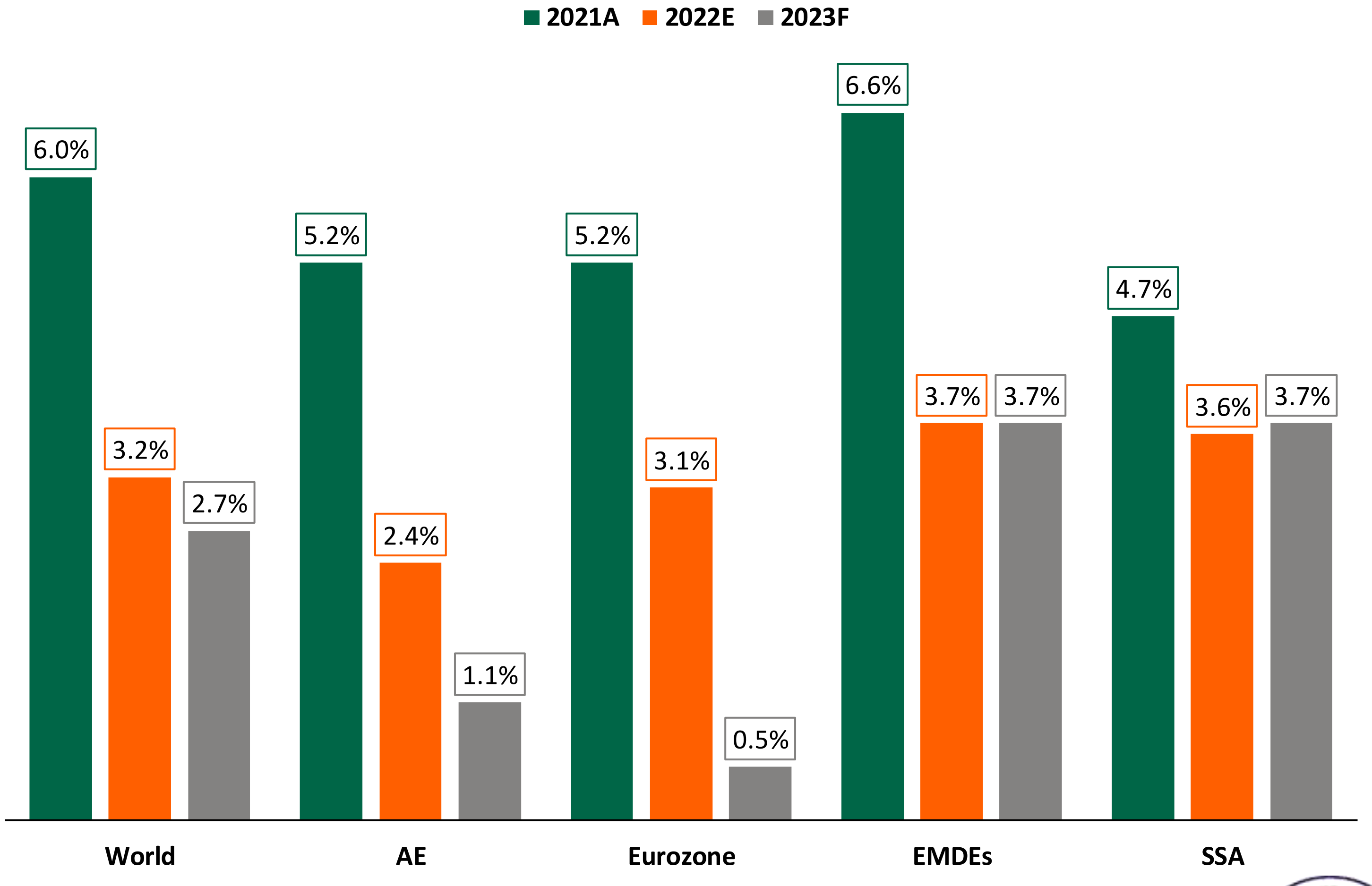
SACB raises benchmark rate to 7.0%

Source: Goldman Sachs, Author's Compilation

…Leaving a Dent on Global Economic Outlook

While the pandemic gradually loses sway on most global economies, monetary & fiscal policy tightening to rein in Inflation as well as the war in Ukraine continue to squeeze global activities. According to IMF, economic activity slowed down by 0.1% in Q2:2022.

- For most regions, outlook is dimmer than six months ago – dented by tightening global financial conditions, sharper slowdown in China due to extended lockdowns, and spillover effects of the war in Ukraine.
- In Advanced Economies (AEs), US growth is expected to slow down to 1.6% and 1.0% in 2022 and 2023 respectively due to declining real disposable income.
- Prospect in the EMDEs has worsened largely due to dented outlook for China (2022: 3.2%). Lockdown in most part of China and worsening property market have held back activity in the region.
- Weaker outlook for the SSA reflects lower trading partner growth, tighter monetary conditions, and a negative shift in commodity terms of trade.

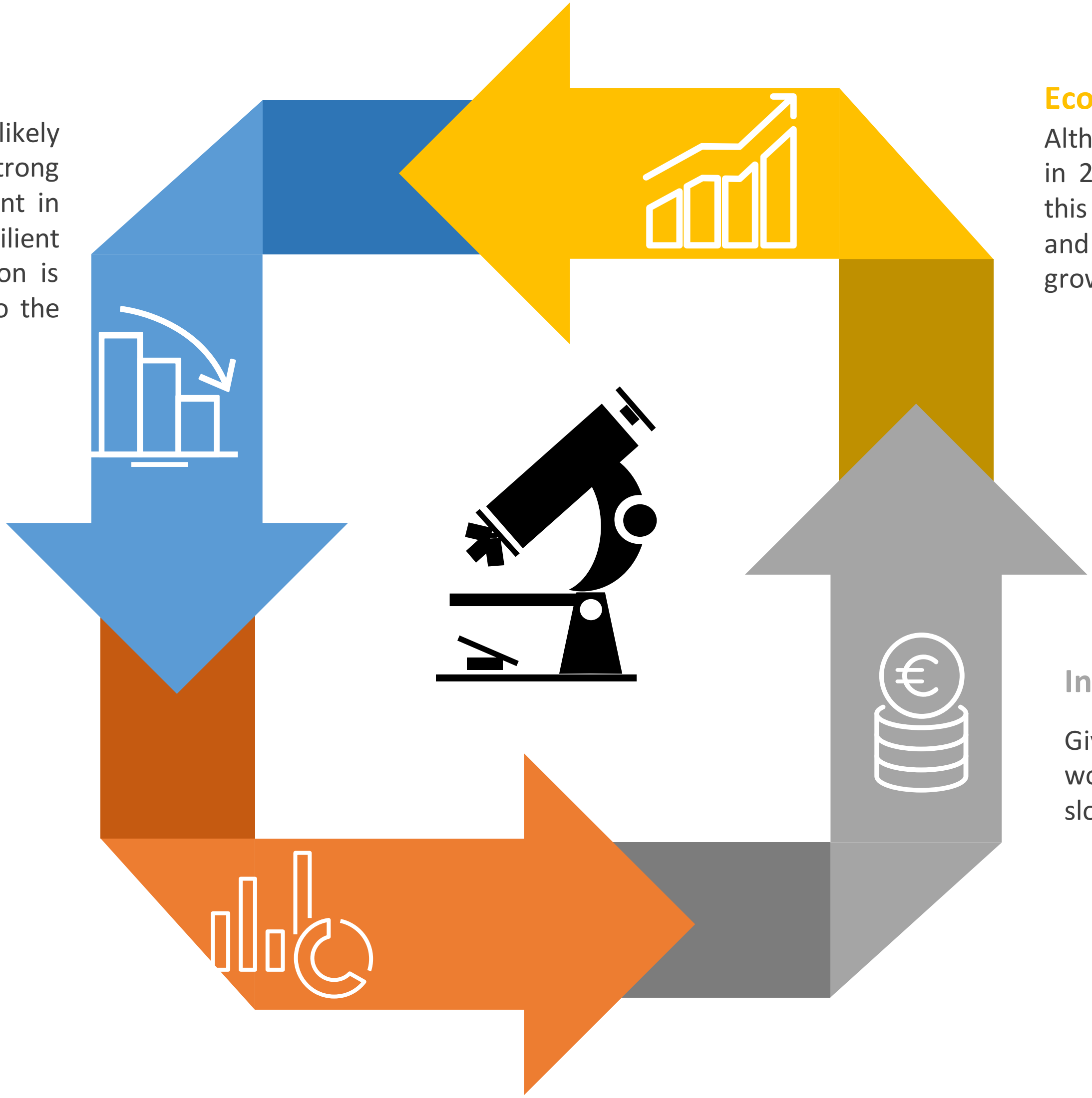


Source: IMF, Author's Compilation

Global Macroeconomic Outlook For 2023

Another Recession in View?

In our view, a global economic recession is less likely in 2023. Our view is hinged on the persistent strong labour market in the US, marked improvement in China's GDP growth in H2:22, and the resilient commodities market. However, the EU region is less likely to avoid a recession in 2023 due to the knock-on effect of the war in Ukraine.



Economic Growth to Remain Pressured

Although monetary tightening is expected to reduce in 2023, the late impact of rate hikes implemented this year would pressure growth. Also, trade tension and structural challenges would continue to pressure growth.

Slower Rate Hikes

Due to the late impact of rate hikes expected to lag into 2023, we posit that the pace of monetary tightening by Central Banks would decelerate.

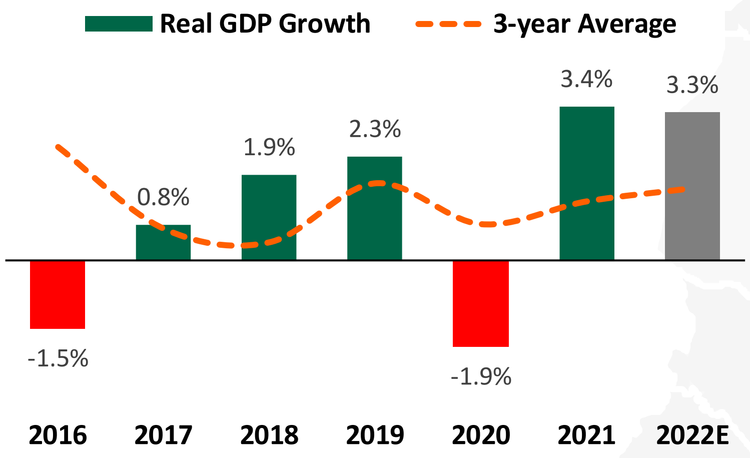
Inflation to slow down

Given the aggressive monetary rate hikes by major world Central Banks, inflation is expected to slowdown gradually in 2023.

Domestic Macro Economic Review & 2023 Outlook

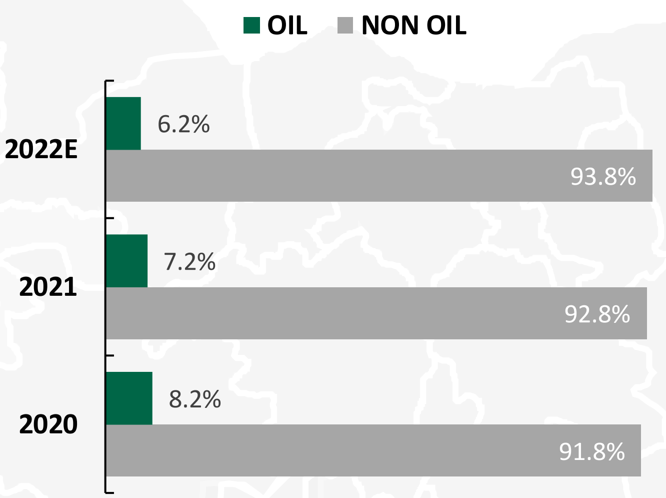
2022 in Retrospect… Non-Oil Sector Upholds Fragile Growth

Growth Trend



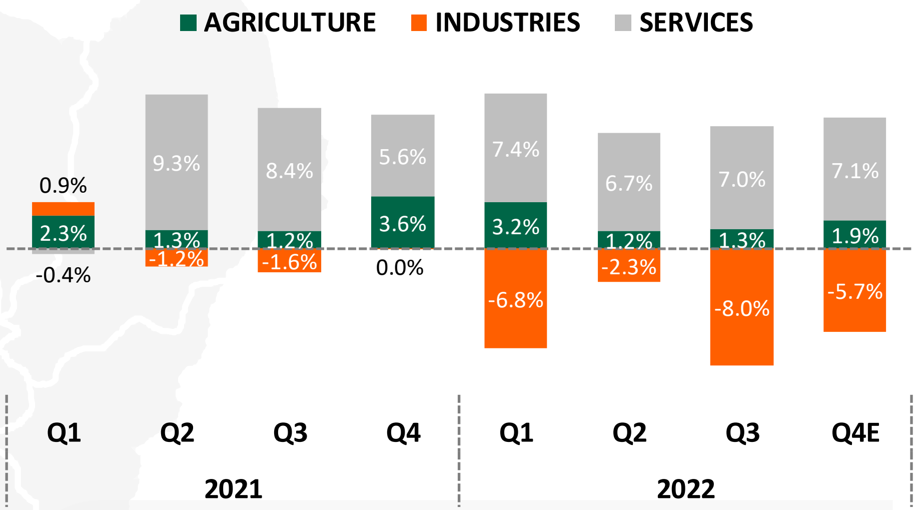
- Growth momentum took a major knock in Q3:2022 to print at 2.3% (Q3:2021: 4.0%) as weak macro fundamentals and monetary policy tightening takes centre stage. We estimate a base case GDP growth of 3.3% in 2022, driven mainly by the non-oil sector.
- Intensified monetary tightening, spiraling inflation, and negative socio-economic and environmental factors are key downsides to our projection.

GDP Contribution



- The impressive 4.3% growth of the non-oil sector over 9M:2022 has sustained the sector's share increase in the GDP.
- Amidst major drag factors such as suboptimal oil production, large-scale theft, and low investment, the oil sector contracted 22.7% in 9M:2022, stretching the sector's recession trend to 10 quarters.

Sectoral Performance

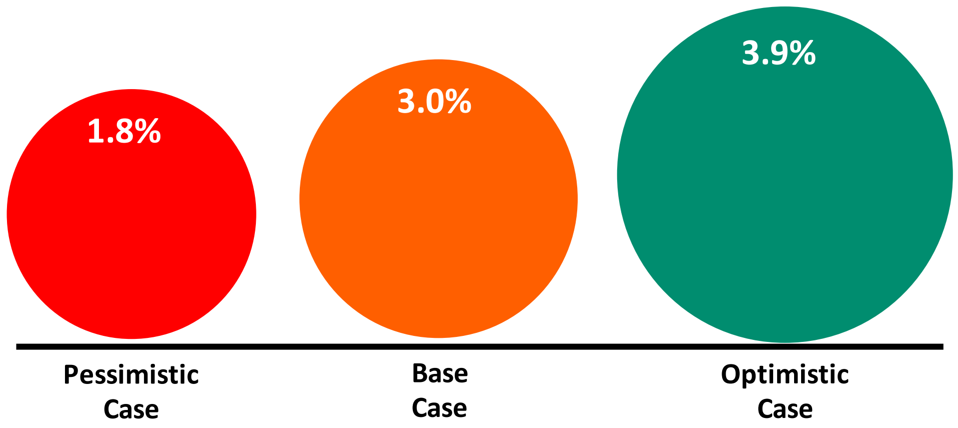


- ICT (10.5%), Trade (5.1%), Transportation & Storage (41.6%) and Finance & Insurance sectors (12.7%) were the brightest segments of the economy. Meanwhile, persistent insecurity and flooding incidences hindered an upbeat performance in the agriculture sector.
- High interest rate, declining investments, FX illiquidity, legacy structural bottlenecks, insecurity weighed on the Industries sector as negative growth worsened to 8.0% in 9M.

Source: NBS, Author's Compilation

GDP Growth Projection… Accelerated Growth Still Remains Elusive

Scenarios for 2023



Optimistic Case Drivers

i. Sizeable portfolio inflows into the real sector
ii. Material improvement in the logistic bottleneck, especially from Apapa port
iii. Significant reduction in crises across agrarian communities
iv. Reduced constraints on importation through land borders
v. Delay in PMS subsidy removal & power tariffs review
vi. Price & exchange rate stability.

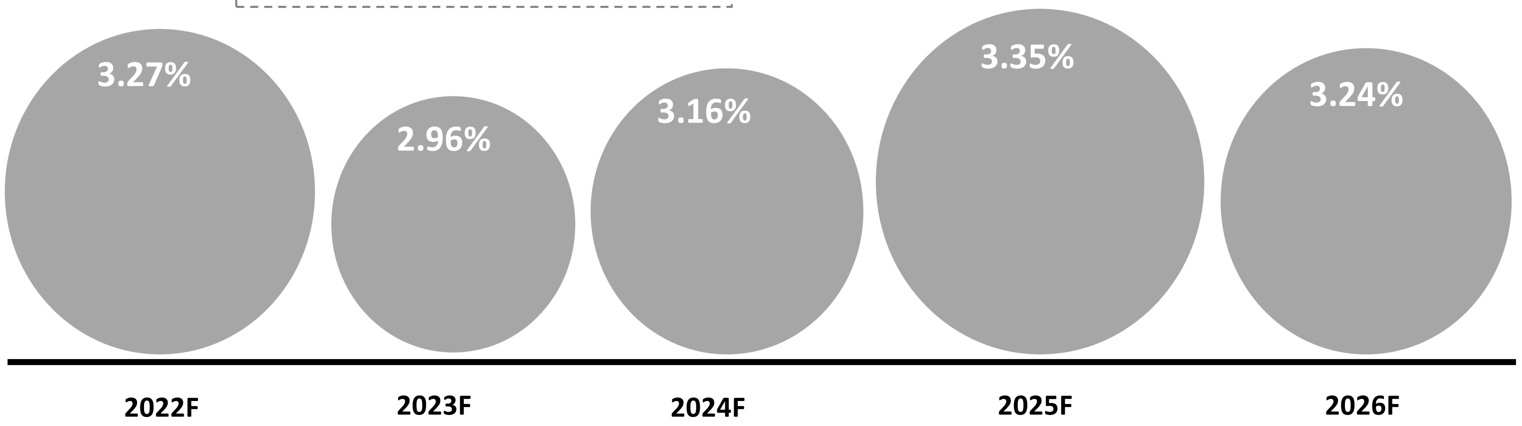
Base Case Drivers

i. Weak improvement in external balance and portfolio inflows
ii. Persistent logistic bottlenecks at major sea ports
iii. Modest reduction in crises across agrarian communities
iv. Maintaining status quo on the partial opening of the land borders
v. Sustained policy onslaught against runaway inflation
vi. Mild disruption to exchange rate stability.
vii. A free and fair election

Pessimistic Case Drivers

i. Protracted apathy of FPIs
ii. Escalation of the logistic bottlenecks at major sea ports
iii. Sustained conflict in the agrarian communities
iv. Further tightening of importation through land borders
v. Simultaneous implementation of subsidy removal & review of power tariffs.
vi. Material depreciation in Naira value.

Medium Term Growth Forecast



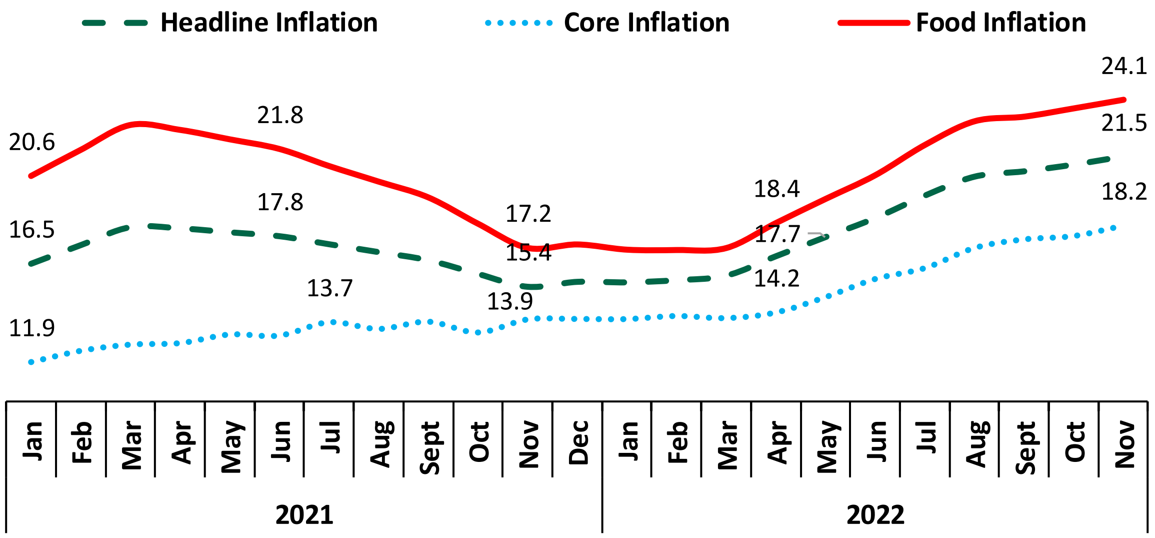
- Real GDP growth is expected to moderate in 2023 following the impact of monetary tightening, inflation and other structural inefficiencies on various sectors of the economy.
- On the positives, measures to curb oil theft, improved oil production and the commencement of Dangote refinery is projected spur recovery in the oil sector.

Source: NBS, Author's Compilation

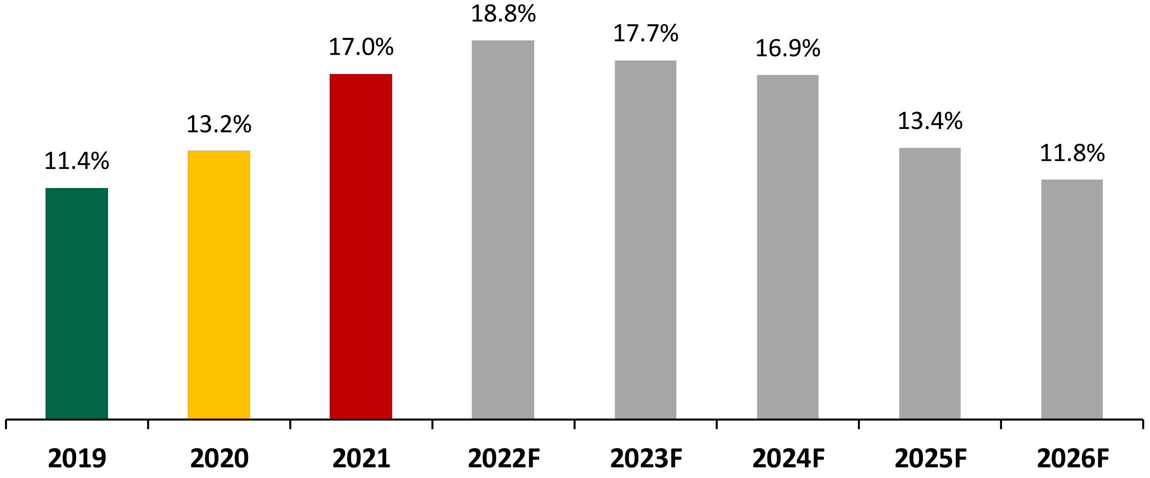
Inflation Rate… Sticky at 17-Year High with Moderation in Sight

- The emergence of unintended external shocks such as the disruption caused by the war in Ukraine has worsened structural bottlenecks which drove inflation higher.
- To halt and reverse this ugly trend, a combination of fiscal prudence, structural reforms, and proactive monetary measure would be key.
- Looking ahead, we posit that inflationary pressure would remain in 2023 although average inflation rate is expected to moderate to 17.7% due largely to high base year effect and softer foreign inflation pass through.

CPI Trajectory by Components



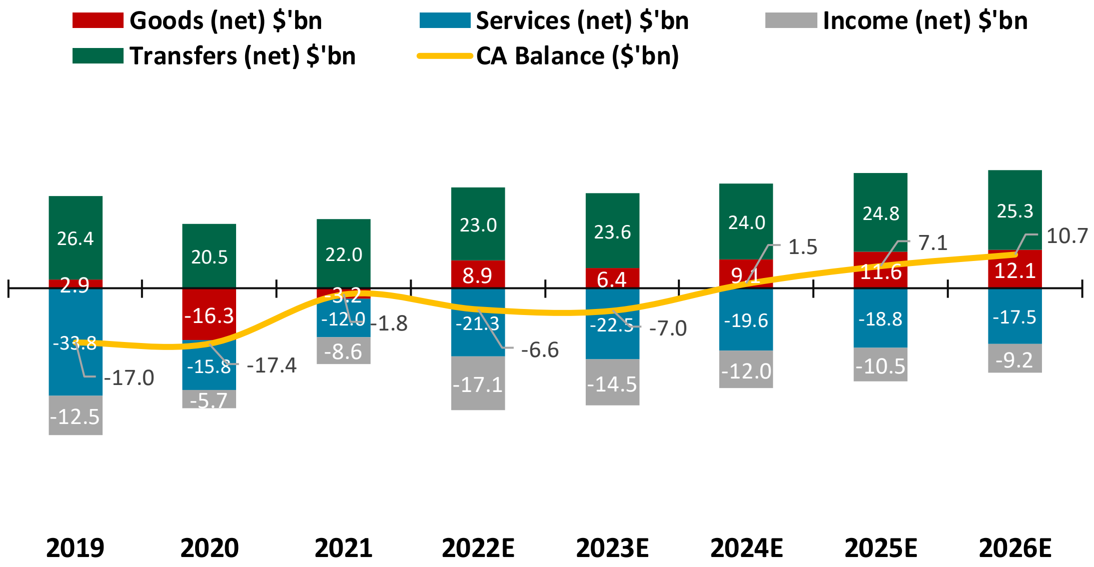
Base Case Average Inflation Projections



Source: NBS, Author's Compilation

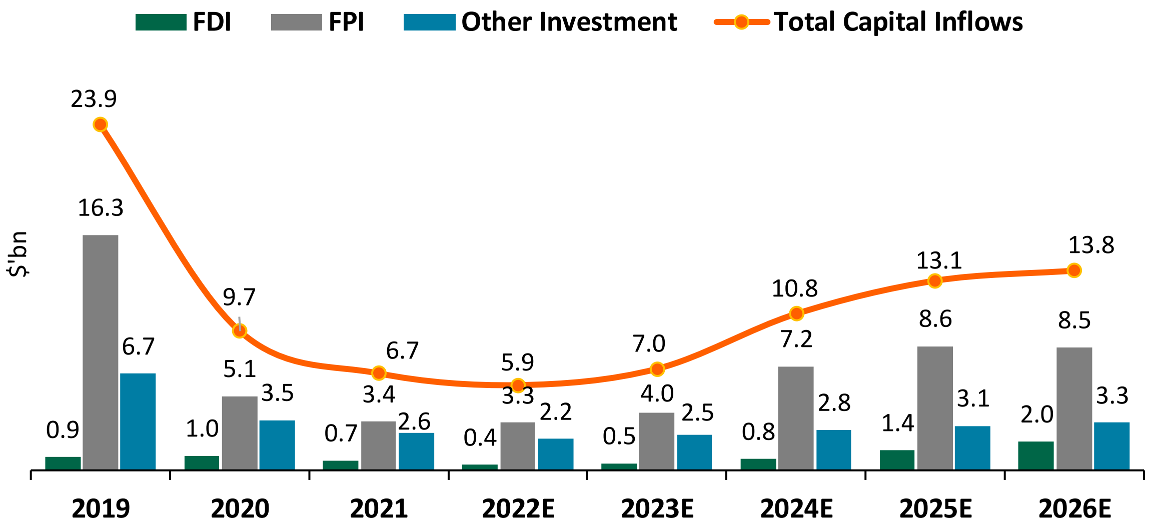
External Balance Expectations: Market Reforms the Only Way Out

BoP Statistics



Source: CBN, Author's Compilation

Capital Importation

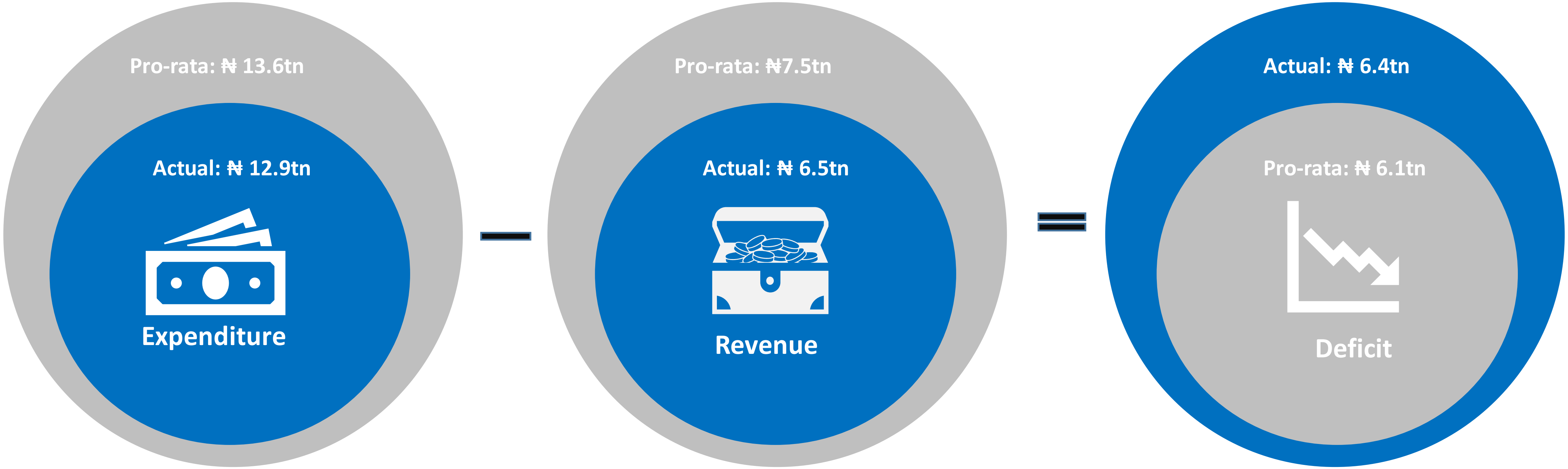


Source: NBS, Author's Compilation

- Goods account balance is expected to recover in 2022 due to higher crude oil prices.
- In 2023, the goods account is expected to benefit from reduced FX outflow on PMS importation following the coming onstream of Dangote's refinery and non-oil export promotion drives.
- Increase spread of working-class Nigerians in the diaspora is expected to continue supporting the strong performance of the transfers account, especially, the remittance component.
- Political stability post-2022 and more market-oriented policies of the new administration are expected to drive a steady recovery in portfolio inflows over the medium term.

2022 Budget in Retrospect: Dismal Revenue Drags Performance

Revenue underperformance has continued to linger due to public sector inefficiency, dearth of innovation, structural bottlenecks, tough business operating environment, obsolete tax system, poor integration of the informal sector, and the industrial-scale oil theft in the Niger Delta region.

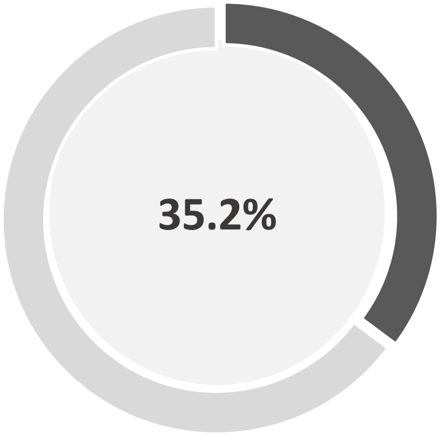


NB: Data are as of November 2022

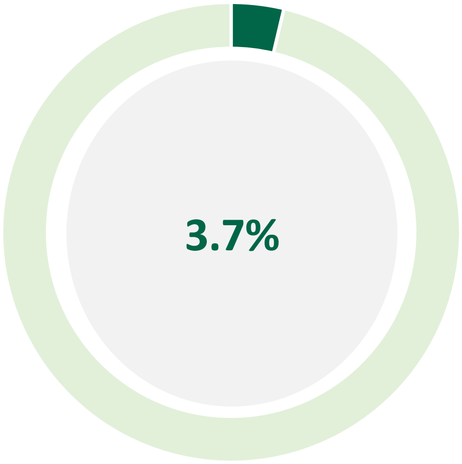
Source: FMFBNP, Author's Compilation

Debt Sustainability Metrics… Illiquidity Closer than Ever

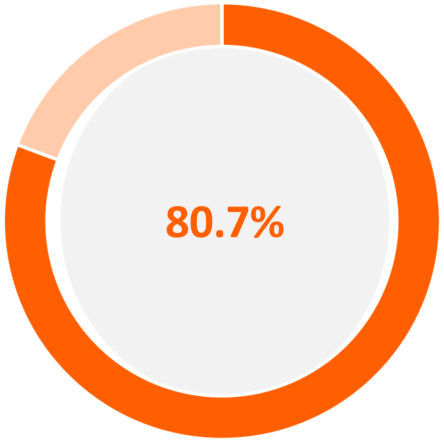
Worrisome illiquid situation has necessitated the downgrade of the nation's credit rating deeper into the junk category (B-) by Fitch ratings



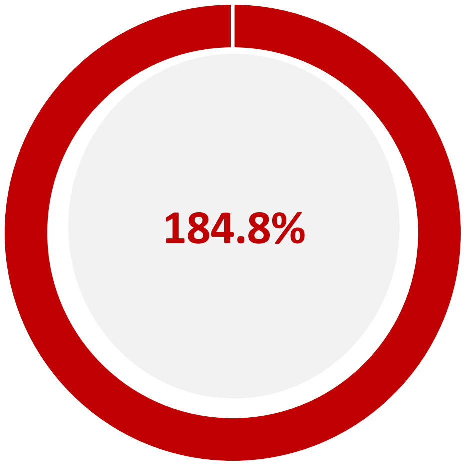
Total Debt-to-GDP



Revenue-to-GDP



Debt Service-to-Revenue



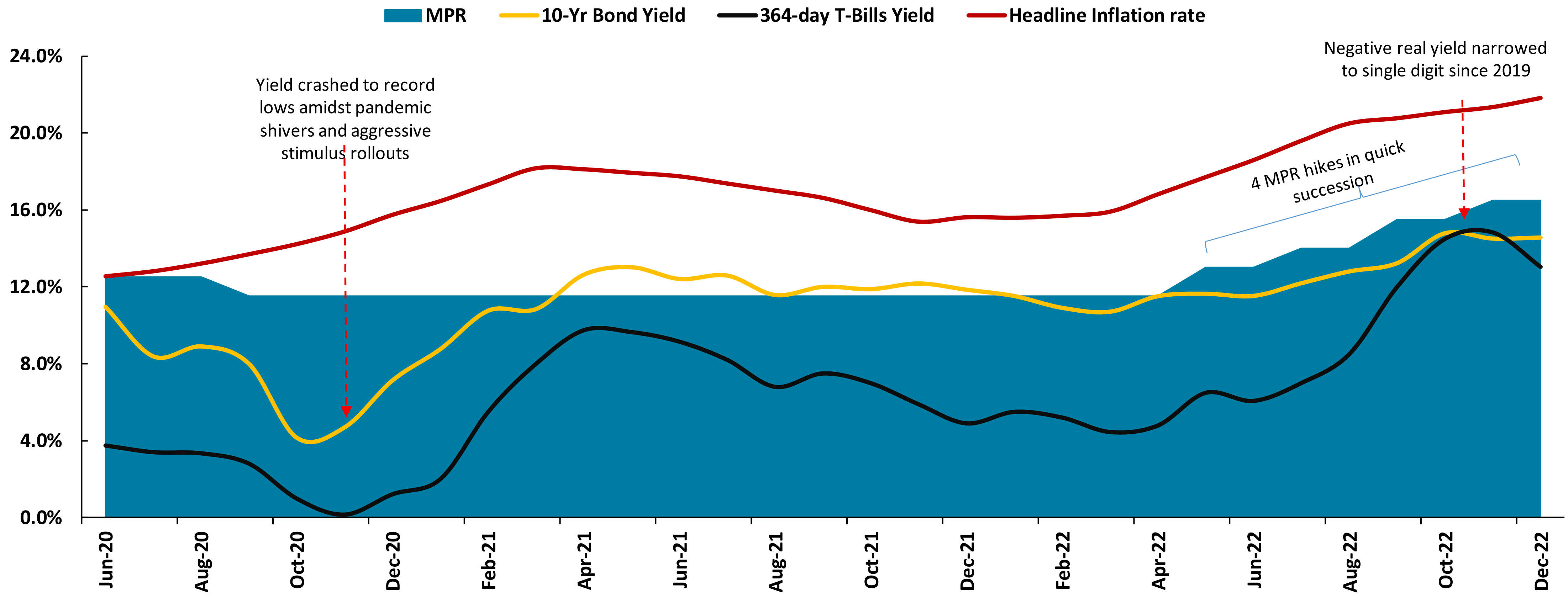
External Debt Service-to-Oil Revenue

NB: Data is as of November 2022

Source: FMFBNP, CBN, DMO, Author's Compilation

Unorthodox Strategy Trade-offs Bite Harder

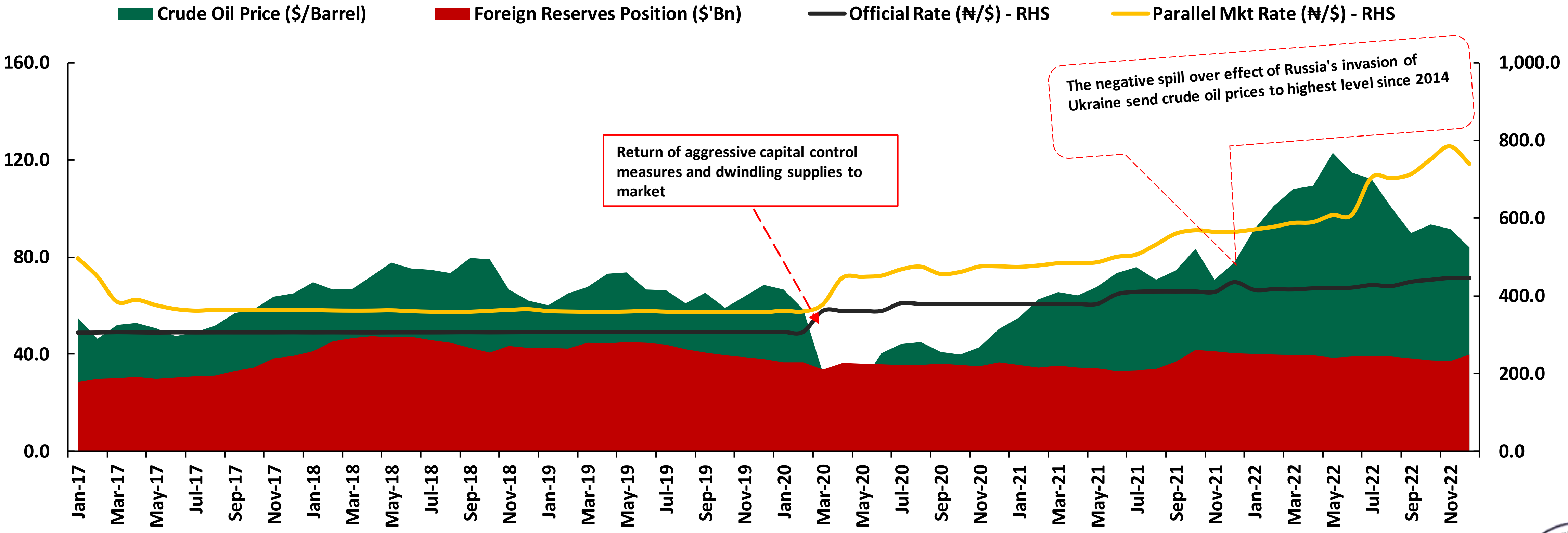
- Inflation has been less responsive to the recent aggressive hikes of the anchor rate by the CBN
- Delay in market yield adjustment and sustained liquidity injection through deficit financing and selective interventions top the drag factors of the MPR mechanism
- Successful taming of inflation would require the CBN to prioritize its core mandate while the fiscal authority pulls its weight in a synchronized manner



Source: CBN, NBS, FMDQ, Author's Compilation

Oil Boom Without Oil Revenue… Exchange Rate Takes a Knock-on

- Despite the recovery in global crude oil prices post-2020 pandemic, Nigeria's exchange rate trajectory has continued to worsen due to the lack of market confidence in the CBN's FX management strategy
- Worst still, the large-scale oil theft and bourgeoning subsidy burden rubbed Nigeria of the windfall gain of higher oil prices post-Ukraine invasion
- A return to a market-friendly monetary policy regime, ending of subsidy payment, and improved non-oil export earnings would be key to end the Naira free-fall.



Source: Bloomberg, CBN, Author's Compilation

Interest and Exchange Rates Outlook for 2023… Reform or Deform?

Exchange Rate Scenarios

Valuation Approach	Best Case	Base Case	Worse Case
PPP	₦680.20/$1.00	₦755.00/$1.00	₦905.05/$1.00
Econometric forecasting	₦694.32/$1.00	₦744.10/$1.00	₦860.70/$1.00
Technical Analysis	₦512.80/$1.00	₦631.19/$1.00	₦715.30/$1.00
Average Fair Value	₦629.11/$1.00	₦710.01/$1.00	₦827.02/$1.00

Pre-conditions

- Phase convergence of NAFEX vs parallel market rate in the shortest possible time
- Improved FX supply aided by higher oil production and non-oil exports
- Policy-driven improvement in FPI inflows

- Sustenance of NAFEX vs parallel market dichotomy
- Weak FX earnings amid the extension of the subsidy regime
- Worsening FPI's apathy due to monetary policy uncertainty

Interest Rate Scenarios

Hawkish Posture

Probability

35.0%

Likely Triggers

- Negative global and domestic inflation surprises
- Lengthy pre or post-general election crises
- Major sanction by world powers

Muted Posture

Probability

50.0%

Likely Triggers

- Modest economic growth accompanied by sticky price pressure
- Muted or slow policy tightening in AEs
- Modest improvement in foreign capital flows

Dovish Posture

Probability

15.0%

Likely Triggers

- Aggressive global stimulus resulting from policy response to unanticipated shock
- Sizeable positive domestic inflation surprise accompanied by modest GDP growth
- Deeper unorthodoxy to suit fiscal authority's preference

Source: Author's Estimation

Approved 2023 Budget…Herculean Task for the New CEO

- Given the existing weak structure to organically drive the projected revenue, we think that the 2023 budget is likely to underperform by more than 40.0% with capital expenditure taking the biggest hit.
- Also, we estimate that actual revenue would peak at ₦7.5tn in a Best-Case Scenario (vs ₦10.5tn projected) while the actual deficit may top ₦14.0tn based on the historical trend of revenue performance.

AGGREGATE EXPENDITURE	₦21.8tn
Non-debt Recurrent	₦8.3tn
Debt Service & Sinking Fund	₦6.6tn
Capital Expenditure	₦6.0tn
Statutory Transfer	₦1.0tn
AGGREGATE REVENUE	₦10.5tn
Independent & Other Revenue	₦5.8tn
Non-oil Tax Revenue	₦2.4tn
Oil & Gas and Min. Revenue	₦2.3tn
BUDGET DEFICIT	₦11.3tn

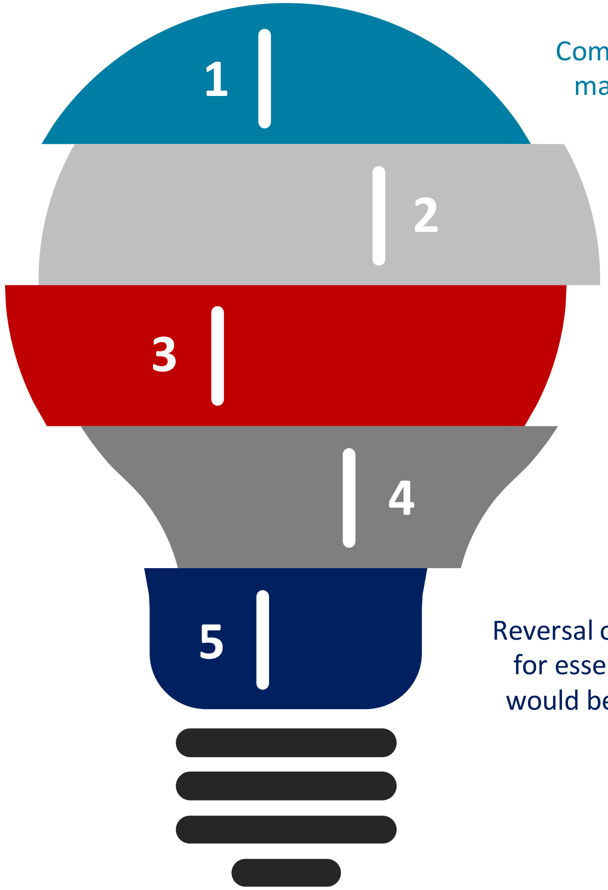
Key Budget Assumptions

1. **1.69mbpd** Average crude oil production
2. **US$75.0/bbl.** Benchmark crude oil price
3. **₦435.57/US$1.00** Exchange Rate
4. **17.2%** Average inflation rate
5. **3.8%** GDP growth rate

Source: Budget Office, Author's Compilation

Fiscal Policy Imperatives for 2023… Reform or Deform?

To rescue the country from the current tipping point, we highlight 5 imperative actions the new administration must not trivialize



1. Complete removal of the PMS subsidy would be a major positive for fiscal capacity enhancement

2. Public sector right sizing and blockage of fiscal leakages would help in lowering the cost of governance

3. Adoption of holistic approach to solving insecurity challenges would be a major win for the next administration

4. Formulation and implementation of compelling business-friendly policies would be a major catalyst for revenue growth and job creation

5. Reversal of the counter-productive land border closure for essential goods not adequately produced locally would be key in reversing runaway inflationary trend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Thank you