



Nigeria's Macroeconomic & Policy Environment In The New Dispensation

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**Baton change!
Policy changes!
Institutional reforms!**

*“It is during war that
generals are made”*



OUTLINE

01

Snapshot
Analysis & Key
Takeaways

02

Challenges &
Major Policy
Changes

03

Outlook &
Opportunities

04

Risk
Footprints

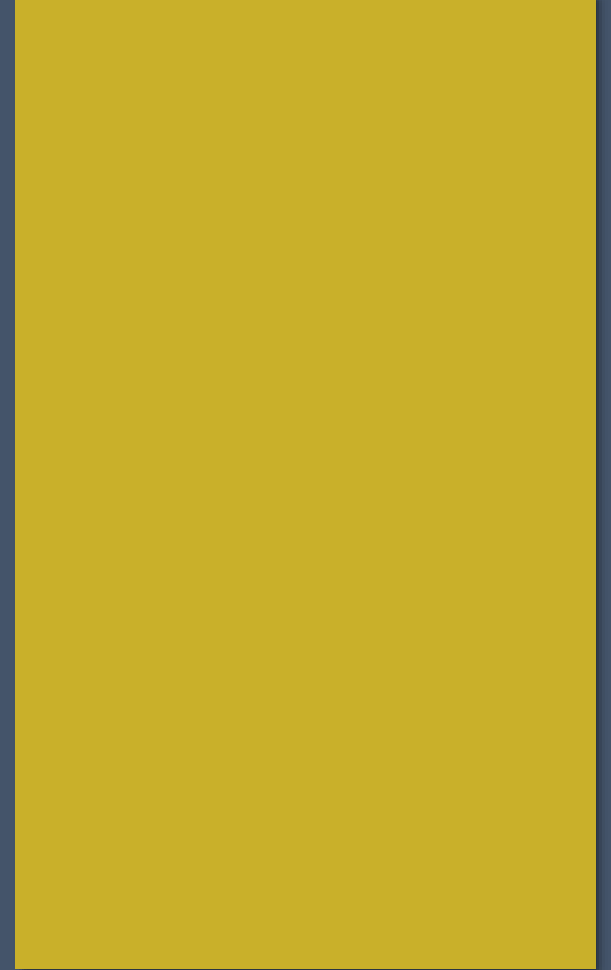
05

Summary &
Conclusion



SNAPSHOT ANALYSIS & KEY TAKEAWAYS

Transition from Partial to General Dynamic Equilibrium



SNAPSHOT ANALYSIS

Indicators	5-yr Avg.	2022	2023*	% change
Real GDP growth (%)	1.22	3.1	2.31 (Q1'23)	-0.79
GDP per capita	2,157.4	2,200	2,280	3.64
Total factor productivity growth (%)	-1.02	0.9	2.0	1.10
Inflation rate (End period; %)	14.04	21.34	22.22	3.32
Oil Production (End period; mbpd)	1.63	1.27	1.18	-7.09
Oil Price(\$'pb)	63.91	100.9	81.03	-19.69
Oil Revenue, Gross(\$'bn)	15.7	25	21 (2022)	-16.00
External Reserves (\$'bn, end period)	38.94	37.08	35.18	-5.02
External Debt (\$'bn, end period)	27.68	38.39 (2021)	41.69 (2022)	8.60
Exchange rate (N/\$, end period)	363	740	765	3.38
Stock Market Cap (N'trn) - end period	22.63	19.98	30.35	51.90

KEY TAKEAWAYS

1

Sub-optimal growth due to bottlenecks, low labour productivity & underutilization of capital stock

2

Spiraling inflation – currently at a 17-year high of 22.22%

- Defying the CBN's policy response (monetary policy tightening)
 - Ways and means provision now 15% of preceding year's actual revenue, up from 5%

3

Monetary policy transmission mechanism is weak

- 364-day t/bill rate down to 7.99%p.a. - widening the negative real rate of return to -14.23%

KEY TAKEAWAYS

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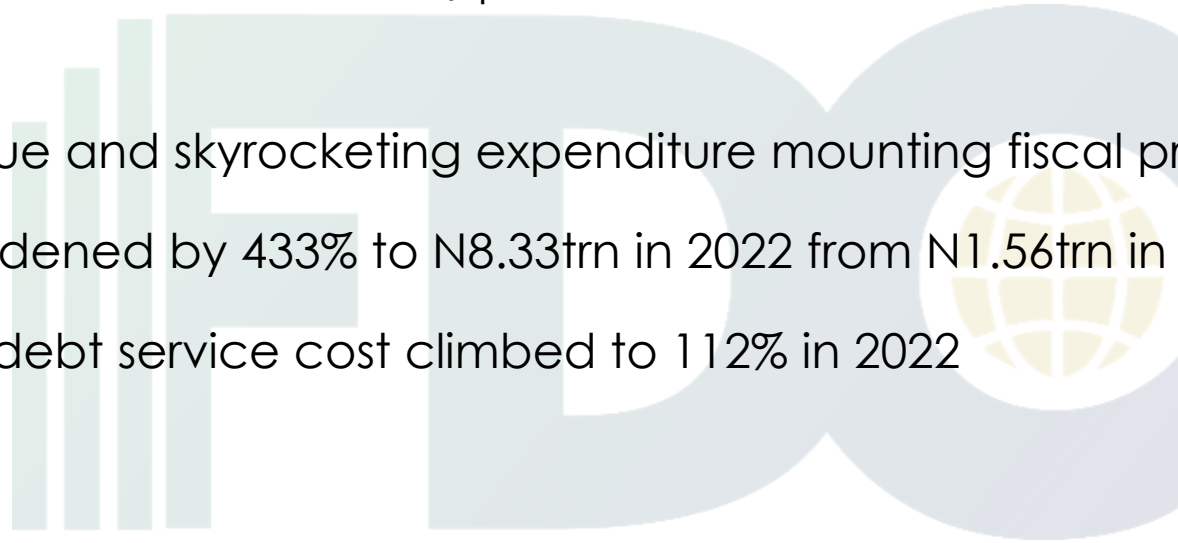
CBN's forex restrictions and rationing increasing currency pressures

- NAFEX rate traded as low as N632/\$

5

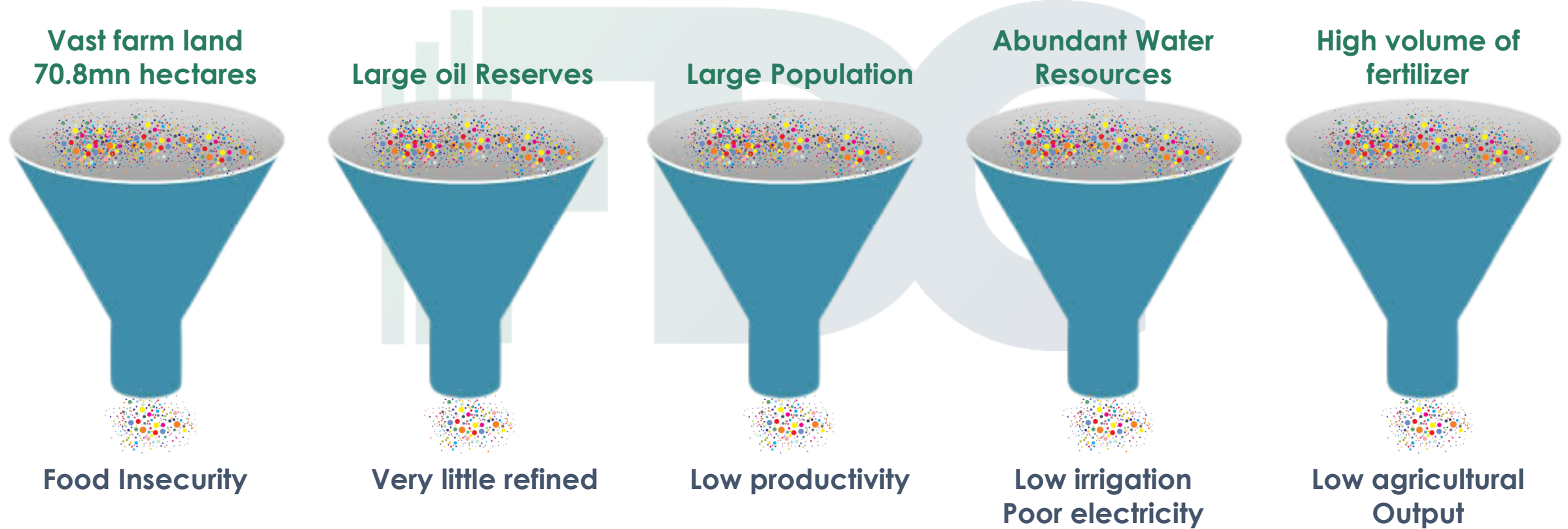
Dwindling revenue and skyrocketing expenditure mounting fiscal pressure

- Fiscal deficit widened by 433% to N8.33trn in 2022 from N1.56trn in 2015
- Revenue-to-debt service cost climbed to 112% in 2022



NIGERIA'S STRUCTURAL PROBLEMS ARE ENTRENCHED

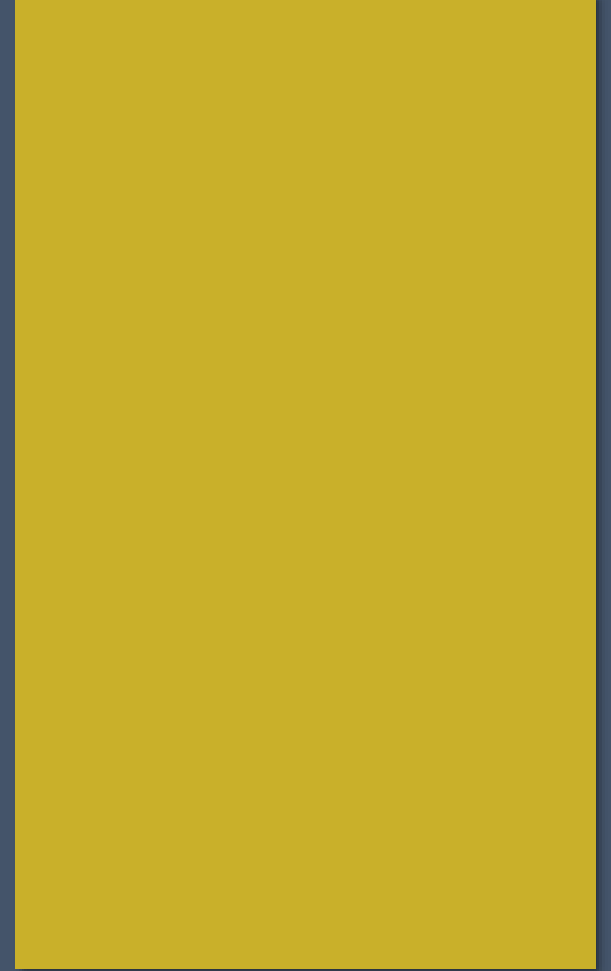
- Nigeria's structural problems are entrenched
- Bottlenecks everywhere



- Due to weak institutions & mismanagement



THE NEW ADMINISTRATION & MAJOR POLICY CHANGES



NEW PRESIDENT | STRENGTHS



- Has worked in the private sector
- Knows how to pick the right team
- Has big dreams
 - Eko atlantic, e.t.c
- ***Dream come true or Nightmare?***
 - Dreams can become a nightmare if not well nourished

Vision/Dreams → Goals → Outcomes

When outcomes are missed, unintended consequences become a nightmare

THE NEW ADMINISTRATION & POLICY OBJECTIVES

1 Petrol subsidy removal

5 Thorough house cleaning at the CBN

2 Unified exchange rate

6 Low interest rates on business loans

3 Repatriation of profits

7 Infrastructure development

4 Anti-investment & multiple tax policies

8 Double electricity generation, transmission & distribution capacity

- Talk is cheap
- The President must be resolute about policy implementation
- Policy reforms must be accompanied with institutional reforms

POLICY PRONOUNCEMENTS & IMMEDIATE REACTIONS

Policy pronouncements	Immediate reaction
Petrol subsidy removal	Resurgence in fuel queues due to hoarding Differentiated pricing across the country Petrol sold at an average price of N350/litre



RISKS | POLICY BACKLASH

01



The negative effect of policy reforms could result in policy backlash

02



Especially given that the President has little political capital

0.3

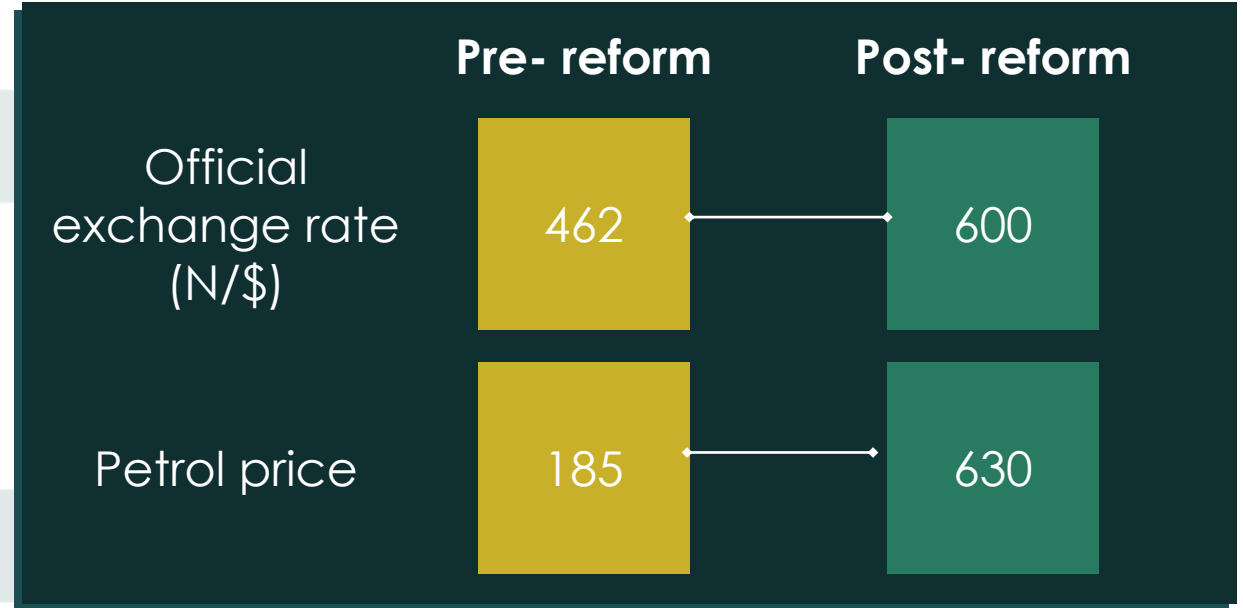


could lead to disruption of economic activities

HOW REFORMS WILL LOOK LIKE?

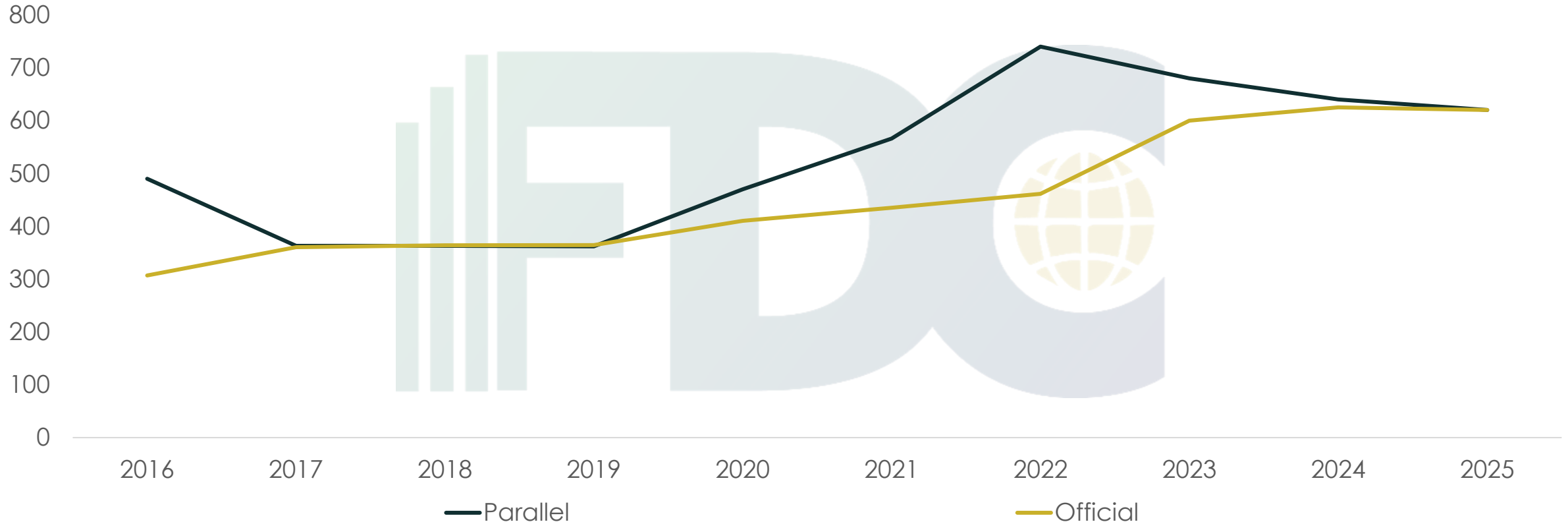
The implementation of the key reforms may have short-term economic pain

But long-term gains are enormous



PATH TOWARDS EXCHANGE RATE UNIFICATION

Parallel vs Official Rate



Long-run goal is to have a unified exchange rate

POLICY PRONOUNCEMENTS | IMPACT ANALYSIS

$$Y = C + I + G + X - M$$

	\$508bn	\$350bn	\$132.1bn	\$39.6bn	(\$13.2bn)
Petrol subsidy removal	-\$3bn	\$26.5bn ▼	\$9.5bn ▲	\$10bn ▲	\$4bn ▲
Currency adjustment	\$12.14bn	\$4.14bn ▲	2.1bn ▲	\$2.4bn ▲	\$3.5bn ▲

POLICY PRONOUNCEMENTS | IMPACT ON TELCOS, FINTECHS & PSBS

Policy pronouncements	Impact Analysis
Petrol subsidy removal	<ul style="list-style-type: none">• Squeezed consumer disposable income• Resulting in lower demand for telco/PSBs services
Immediate unification of exchange rates	<ul style="list-style-type: none">• Reduction in arbitrage activities• Ease in telcos forex sourcing problems
Repatriation of profits	<ul style="list-style-type: none">• Easy repatriation of profits to boost investor confidence• Increasing invisible flows into the country
Anti-investment & multiple tax policies	<ul style="list-style-type: none">• Encourage investment• Possible increase in profitability

LONG TERM GAINS | IMPACT ON TELCOS, FINTECHS & PSBS

Impact analysis

Government revenue



Create fiscal space for the provision of key infrastructural and improvement of general welfare of the citizens – Telco providers to benefit from high level of subscription as consumer standard of living improves

Foreign investment



Increased foreign investment into Telecom industry as foreign investor confidence improves

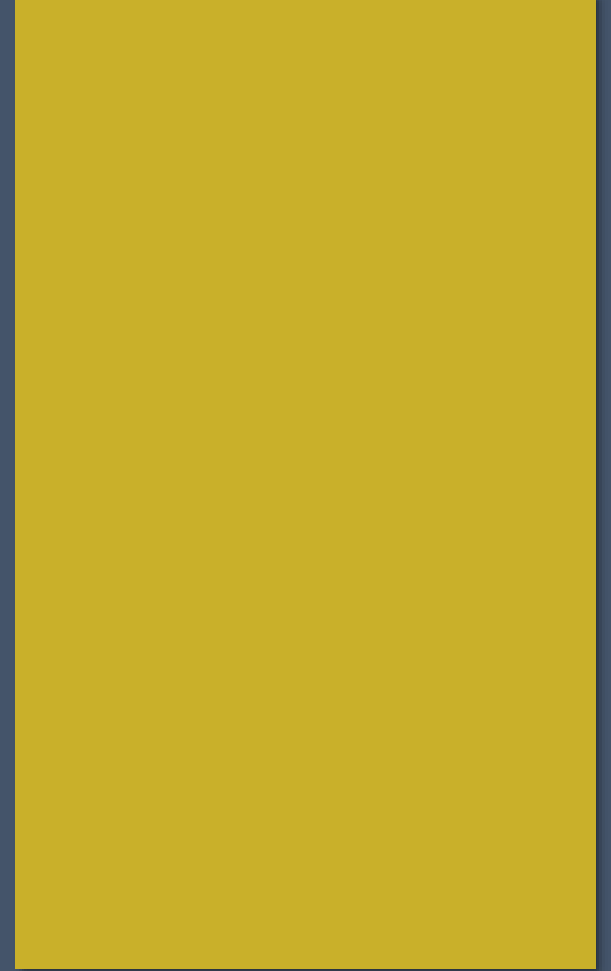
Diesel price



Reduction in operating cost and business profitability



OUTLOOK & OPPORTUNITIES





SHORT TERM OUTLOOK

- Nigeria's GDP to slow to 2.9% in 2023
 - Down from an average of 3.10% in 2022
- Inflation to climb to an average of 20.3% in 2023
 - From the average of 18.8% in 2022
- CBN to keep policy rate elevated as inflation remains high
 - MPR likely to peak at 19.50%
- Official exchange rate likely to be adjusted to N600/\$
 - Will lead to appreciation of the parallel exchange rate towards N680/\$
 - Given that monetary conditions are tight

- **Clear policy direction as new administration takes over**
 - **Petrol subsidy eliminated**
- **Announcement of supplementary budget in August**

LONG-TERM OUTLOOK | GAME CHANGERS

African Continental Free Trade Agreement



AfCFTA

Elimination of 97% of tariff over the next five to ten years

Trade facilitation & service

To boost intra-African trade by 60% by 2034

Lekki Deep Sea Port



Equipped with 13 quay cranes for a capacity of 2.5 million TEUs (Twenty-Foot Equivalent Units) on a 1.2 kilometre quay with a depth of 16 meters

One of the largest in West Africa

Dangote Refinery & Petrochemicals



The world's largest single-train refinery

Has the capacity to process 650,000 barrels of crude oil per day

Can meet 100% of Nigerian demand and have surplus for exports

IMPLICATION OF DANGOTE REFINERY ON THE NIGERIAN ECONOMY

Dangote refinery not a silver bullet

A necessary but not sufficient condition for macroeconomic stability

Impact on the economy will reflect much more in 2024

Reduction in downtime and increase in productivity & output growth

- Will positively impact sectors that rely on the industry for production both directly & indirectly

Expected to increase employment levels directly & indirectly

- Increased sector productivity to boost employment levels

Will increase government revenue through higher tax payment

- Federal government to benefit from increase in production & employment levels in form of higher tax collection

FINANCIAL INCLUSION | OPPORTUNITIES

- Nigeria's economy is mainly consumer-driven
 - Consumption accounts for about 70% of GDP
 - Increased need for investment in 5g networks due to growing demand
 - Video streaming, tele-education & medicine, virtual meetings & classes and games for children
- Segregation of supervision of banks, telcos and PSBs
 - Less regulations and interventions from the CBN
 - NCC will become more powerful
- CBN to shift to orthodox monetary policy
- More efficient payment system to push up the velocity of money in circulation
- High income from fees charged on online transactions & transfers
- Telcos/PSBs to also benefit from high yields on pool of funds as interest rates remain elevated

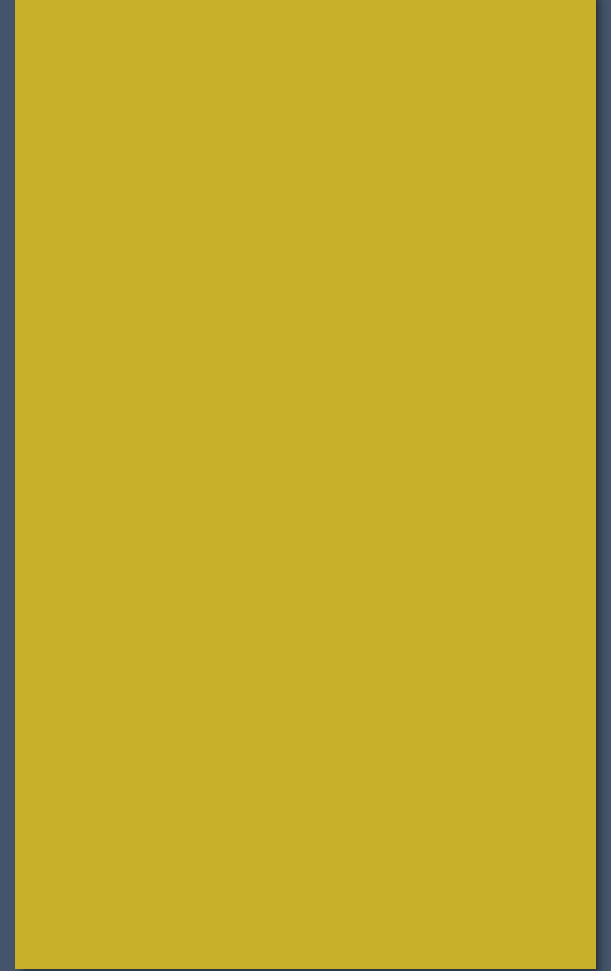
LONG-TERM OUTLOOK | TELECOMS (EIU)

Mobile penetration	2022	2023	2024	2025	2026	2027
Mobile voice subscriptions	222,572	237,090	260,500	289,512	312,780	327,828
Mobile voice subscriptions (per 100 people)	102	106	114	123	130	133
Mobile broadband subscriptions (m)	88	100	112	125	138	152
Mobile broadband subscriptions (per 100 people)	40	45	49	53	58	62

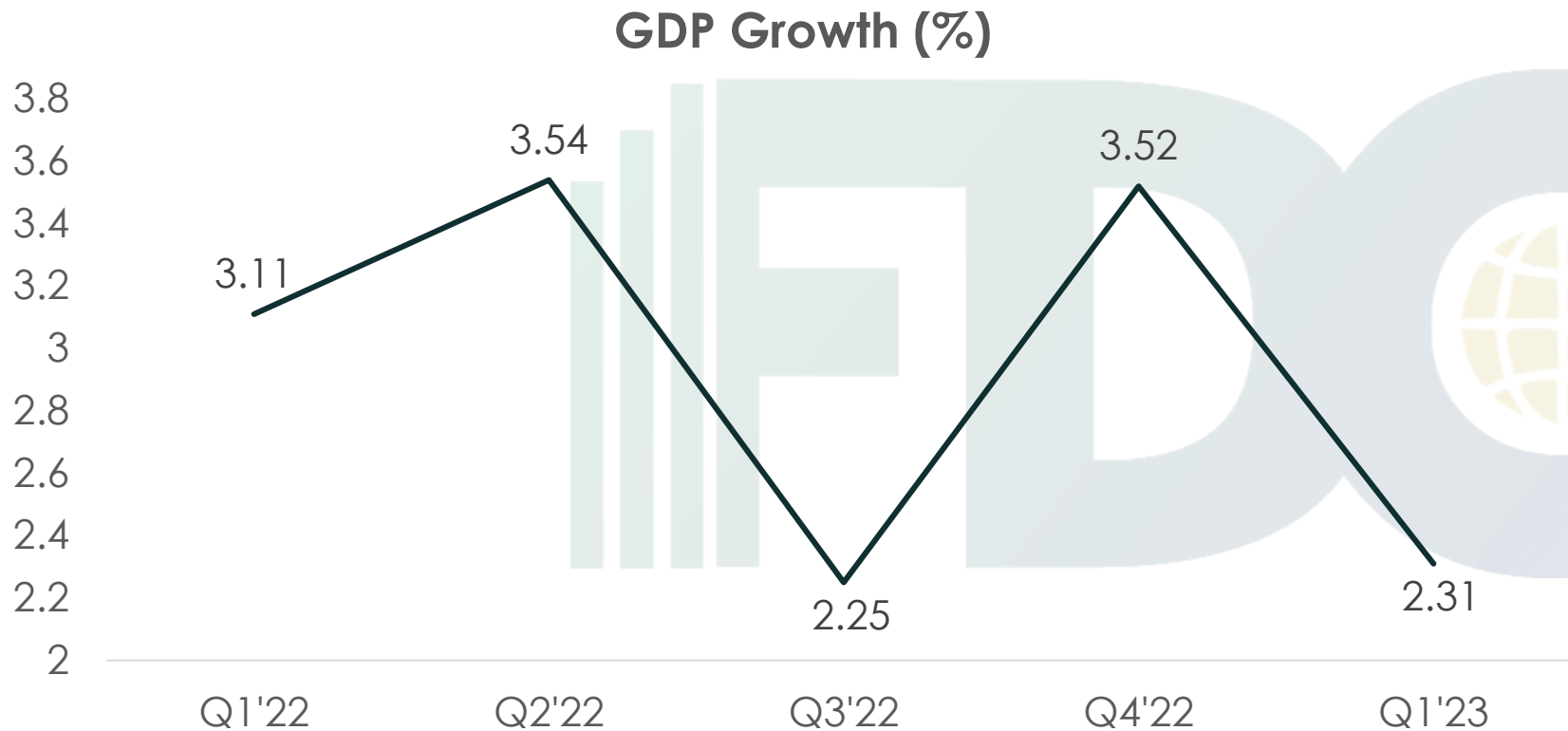
- Further expansion in mobile subscriber growth over the forecast period (2023-27)
- Number of users to grow at an annual average rate of 8.1%
- Will result in a penetration rate of 133% at end-2027,
 - up from 102% in 2022



SUMMARY & OUTLOOK



WILL THE NIGERIAN ECONOMY SLIP INTO A RECESSION?



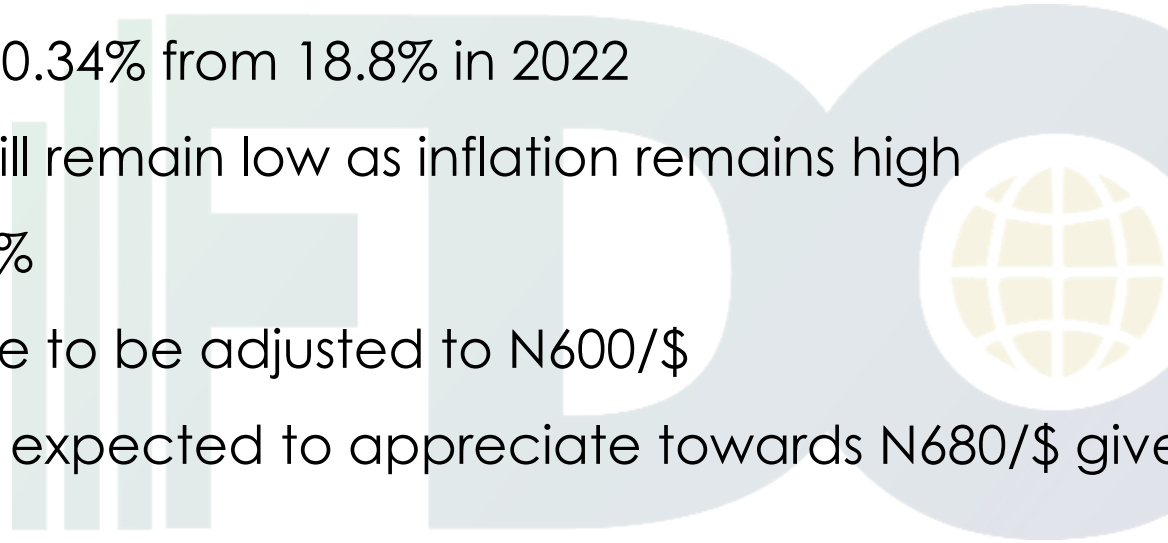
- Will the Nigerian economy slip into a recession? - **NO**
- But real GDP growth is likely to slow again in Q2
- Partly due to the spill over effects of the Naira cash crunch and political uncertainties

SUMMARY & CONCLUSION

- Nigeria's macroeconomic problems are well documented
 - Slow growth, high inflation, weak public finance and high debt burden
- The new government will take the bold step in implementing major policies
 - Petrol subsidy removal
 - Exchange rate unification
- Policy reforms come with short-term pains
- Telco providers will benefit in the long-run
 - Improvement in employment levels and consumer disposable income
 - Ease in forex sourcing challenges
- Dangote refinery to boost supply of petroleum products and boost productivity

SUMMARY & CONCLUSION

- GDP growth to slow further to an average of 2.9% in 2023
- Long-term growth will be export, investment and consumption-led
- Inflation to average 20.34% from 18.8% in 2022
- Disposable income will remain low as inflation remains high
- MPR to peak at 19.50%
- Official exchange rate to be adjusted to N600/\$
- Parallel market rate is expected to appreciate towards N680/\$ given that monetary conditions are tight
- Adjustment of official rate unlikely to lead to high inflation





THANK YOU