



Nigeria Economic Outlook 2023

A Look Ahead

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- ❑ Dr. Adedipe is the founder and Chief Consultant of B. Adedipe Associates Limited (BAA Consult). With over 42 years of post-graduate work and professional experience in university teaching, investment banking, project finance, management and financial consulting as well as leadership in business and not-for-profit organizations.
- ❑ 'Biodun has had an illustrious career that took him through the University of Lagos, Enterprise Consulting Group, the World Bank (Africa Region), International Merchant Bank Plc, and First City Monument Bank Plc.
- ❑ He received his Doctorate degree in Industrial Economics (specializing in Corporate Finance) from the University of Lagos in 1989 and B.Sc. in Economics (First Class) from the University of Ife (now, Obafemi Awolowo University, OAU) in 1980, and bagged several awards in the process, including Sir Adam Thomson scholarship as visiting doctoral student to the University of Sussex, UK (1984).
- ❑ He is a member of several respected professional bodies, including the Institute of Directors, Nigeria, Chartered Institute of Bankers of Nigeria, The Nigeria Economic Society and American Economic Association.
- ❑ 'Biodun founded BAA Consult in February 1993, and he has been responsible for charting and managing the firm's strategy and activities since operations commenced in March 1994.
- ❑ He sits on the boards of a couple profit-seeking and not-for-profit organizations in diverse capacities as Chairman, Non-Executive Director and Independent Director.



Outline

Premise

Global Macroeconomic and Social Issues

The Nigerian Economy

Outlook

End Notes



Premise

Fundamentals

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Headline

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“The Nigerian business environment has many **challenges** as well as many **opportunities**. What we see and focus on is **our choice**.”



**“We all make choices, but
in the end our choices
make us.”**

Ken Levine

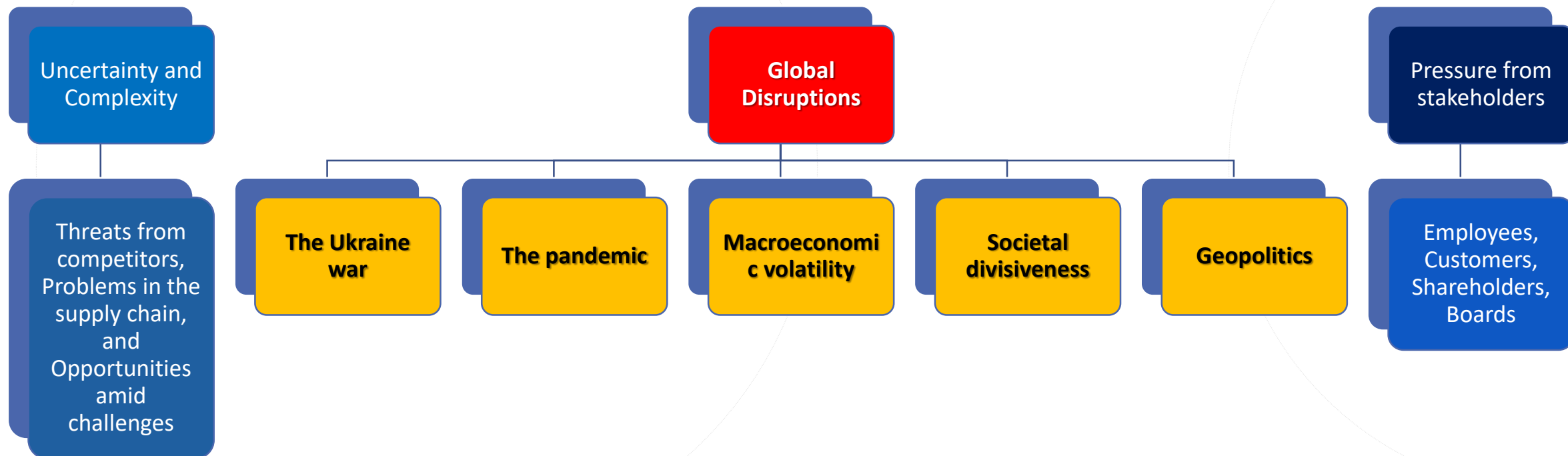


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Global Macroeconomic and Social Issues

What they are and What they Mean





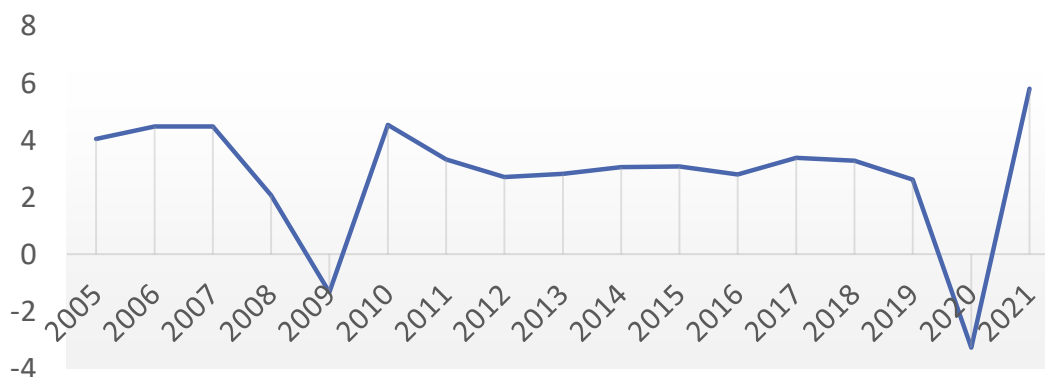
Global Economy

The global economy contracted by -3.3% in 2020, dragged by the Covid-19 pandemic. Only very few countries escaped this adverse development, the Nigerian economy also contracting by -1.92%.

The global economy however, experienced a strong but uneven growth in 2021 with most emerging and developing economies recovering.

The global economy is expected to decelerate to 3.2% in 2022, following the fairly strong growth of 6.0% in 2021. (IMF)
It is expected to expand to top \$100 trillion in 2022. (Reuters, 2022).

Global GDP Growth



Members State	2021	2022e	2023f	2024f
World	5.9	2.9	1.7	2.7
Advanced Economies	5.3	2.5	0.5	1.6
Emerging Market and Developing Economies	6.7	3.4	3.4	4.1
China	8.1	2.7	4.3	5.0
India	8.7	6.9	6.6	6.1
Russia	4.8	-3.5	-3.3	1.6
Brazil	5.0	3.0	0.8	2.0
Middle East and North Africa	3.7	5.7	3.5	2.7
Saudi Arabia	3.2	8.3	3.7	2.3
Sub-Saharan Africa	4.3	3.4	3.6	3.9
Nigeria	3.6	3.1	2.9	2.9
South Africa	4.9	1.9	1.4	1.8

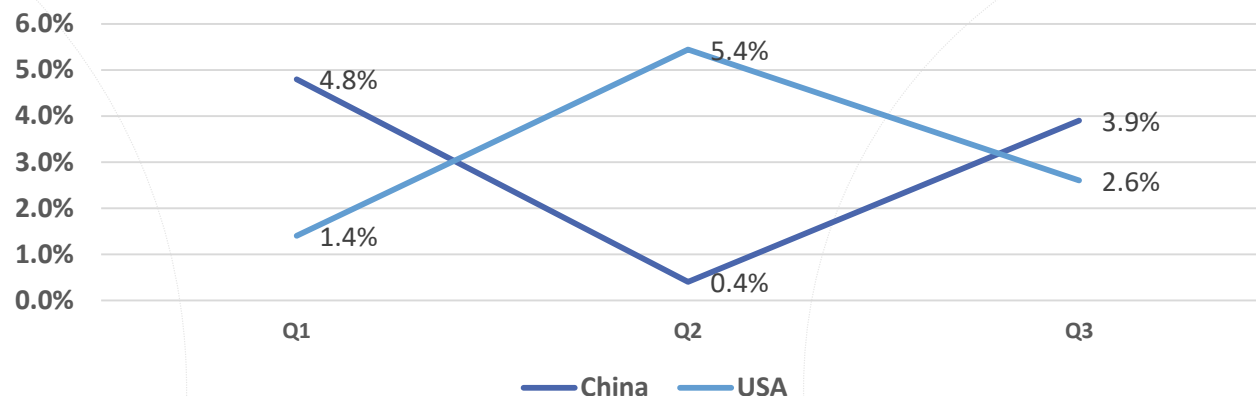
Source: World Bank, Global Economic Prospects, Jan 2023



Global Economic Developments

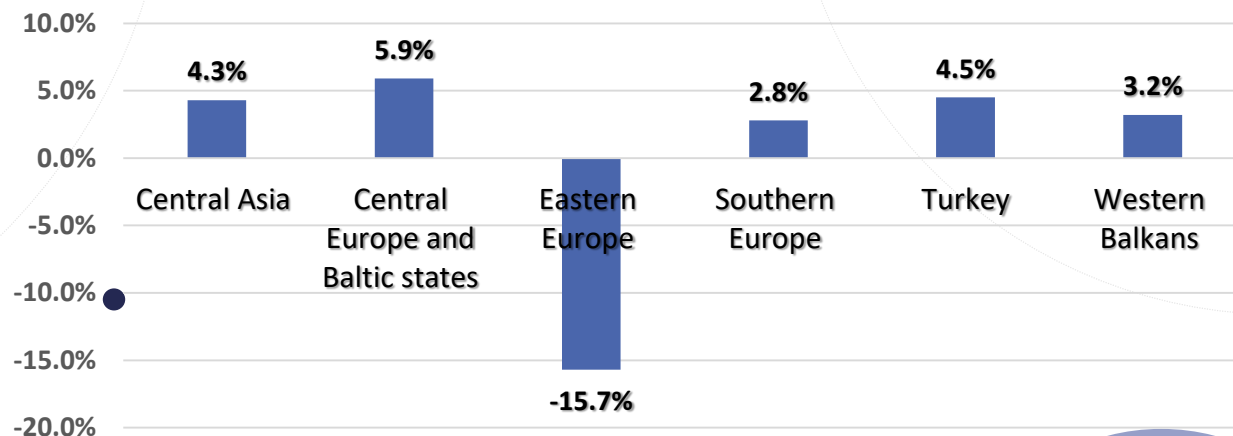
- The US economy recessed (-1.6% GDP growth rate in Q1 and -0.6% in Q2) and recovered with 2.6% in Q3'2022.
- Chinese economy hobbled by zero-Covid policy and troubled real estate sector.
- Chart 1 shows the contrasting trend in the two global economic powerhouses in the first three quarters of 2022.
- Europe was a mixed bag of economic performance:
 - The economies of Central Europe and the Baltic states led in the European bloc with 5.9% in H1'2022.
 - Eastern Europe was deeply impacted by the Ukraine war and contracted by -15.7%.

Chart 1: United States and China GDP Q1-Q3



Source; Bureau of Economic Analysis

Chart 2: Euro Area H1 2022



Source; European Bank for Economic Prospects, 2022



Major Global Socio-Economic Issues and Implications

Lingering **Russian/Ukrainian War**

- ❑ Sanctions on Russia drove up global energy price.
- ❑ Supply chain disruptions of major commodities (grains and palladium).
- ❑ Rising cost of doing business.

Shifting **economic growth** to energy-exporting countries from energy-importing ones.

Increased global energy prices amidst shortages trigger global **inflationary pressures**.

Slowing **Chinese** economy due to zero-Covid policy and soft real estate sector.

Sovereign debt conundrum and disparate interpretation / response.

Stagflation reality and impending **economic recession** in 2022/2023.

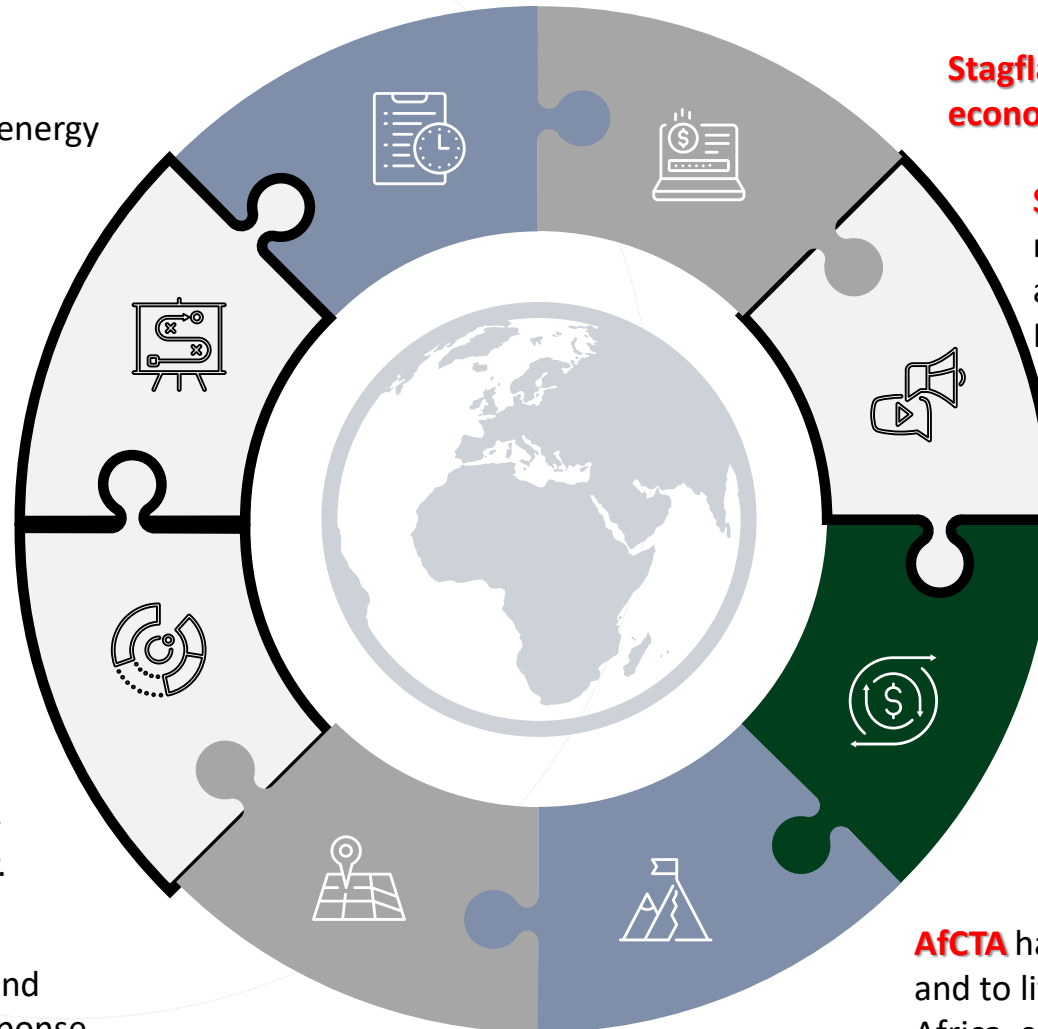
Strong US Dollar causing **currency crisis** in many countries. Not all economies can take advantage of weaker currency, as proven by British exporters in the past.

Changing **workplace dynamics** + redefined employee expectations and wages restructuring.

Property prices already falling (in at least, 9 rich countries).

Global debt rose to \$295 trn in 2021, being 320% of GDP in 2019 and 355% in 2021. Upward adjustment of policy rates has raised borrowing cost for governments, corporates and households.

AfCTA has potential market of \$3 trillion and to lift intraregional trade to 20% for Africa, compared to 60% in Asia and 70% in European Union.





Major Global Socio-Economic Issues and Implications (contd.)

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“Asset prices have been in broad, synchronous decline, investment growth has weakened substantially, and housing markets in many countries are worsening rapidly. Shockwaves continue to emanate from the Russian Federation’s invasion of Ukraine, especially in energy and other commodity markets. Against this backdrop, confidence has fallen precipitously. The world’s three major engines of growth—the United States, the euro area, and China—are undergoing a period of pronounced weakness, with adverse spillovers for emerging market and developing economies (EMDEs), many of which are already struggling with weakening domestic conditions.” **World Bank, GEP, January 2023**



The Nigerian Economy

Structure and Peculiarities



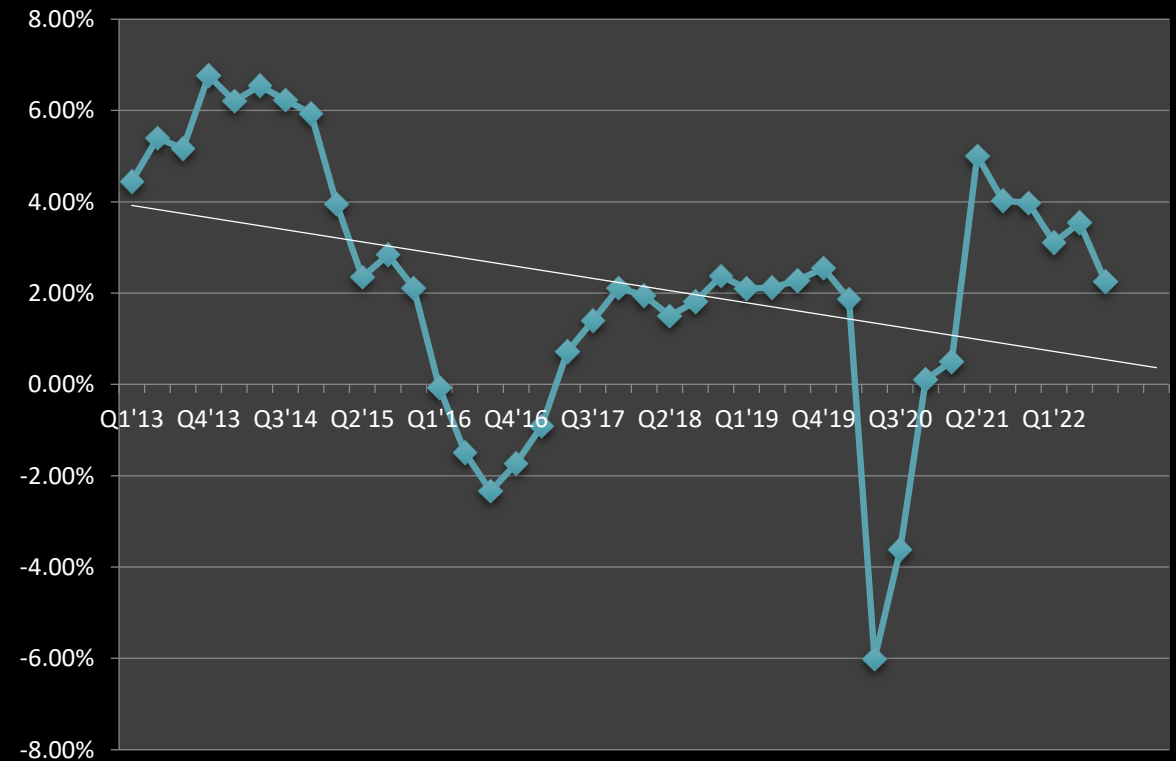


The Economic Growth Trend (2013 – Q3'2022)

The Nigerian economy dampened by -1.92% in 2020, recovered to 3.4% in 2021.

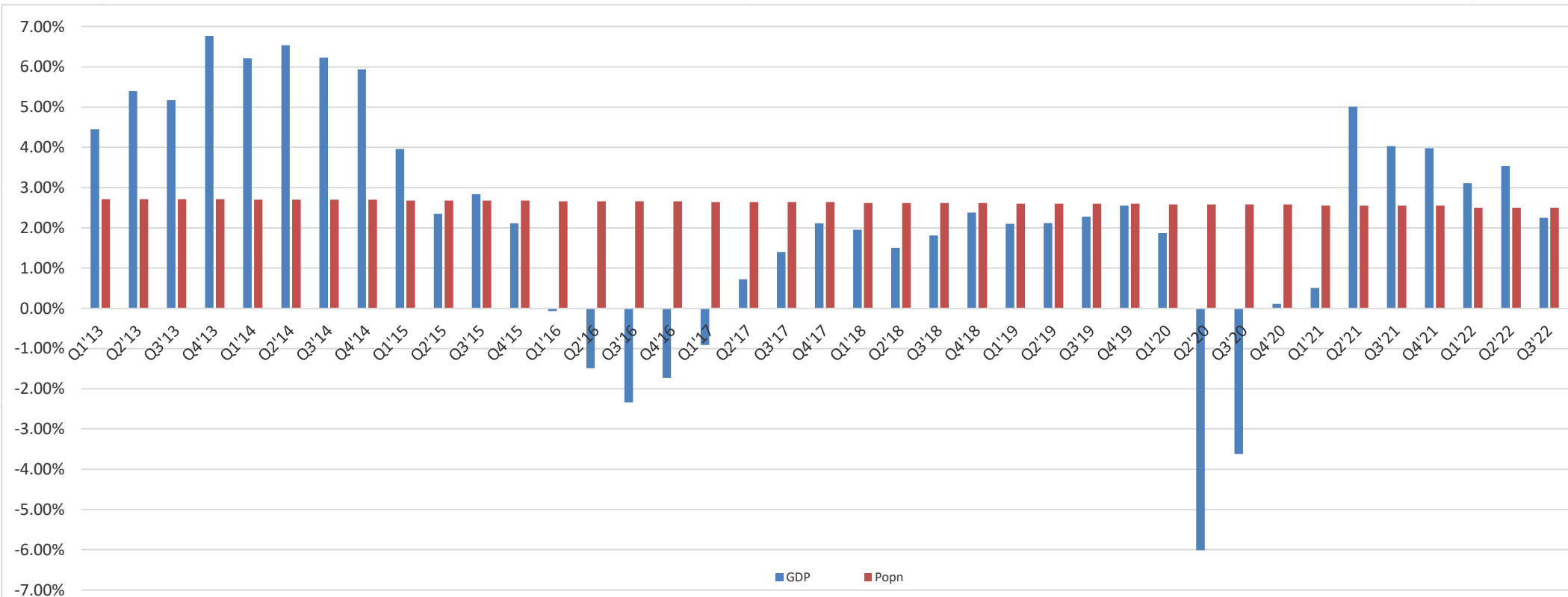
- Oil production at **1.49mbpd** and spot price of Bonny Light (BL) averaged **\$71.09/bbl** in 2021 dropped to **1.43mbpd** in Q2'2022.
- BL at **\$83.74** as at 10.47 am on Wednesday, 10th November 2021, down to **\$72.05** at 9.39pm on Saturday, 4th Dec 2021, rose to **\$123.1** at 9.55 pm on Wednesday, 10th March 2022 and down to **\$78.67/bbl** on Tuesday, 20th December 2022, 9.05pm.
- Market dynamics caused by the Ukraine war, recently reversed Chinese zero-Covid policy and recession prospect for a third of world economies tempered the oil market with Nigeria's Bonny Light trading at **\$85.97/bbl** on Wednesday, 18th January 2022, 11.15pm.

Nigeria: Real GDP Growth Rate (%), Q1 2013 - Q3 2022





Nigeria: GDP / Population Growth Rates (%)

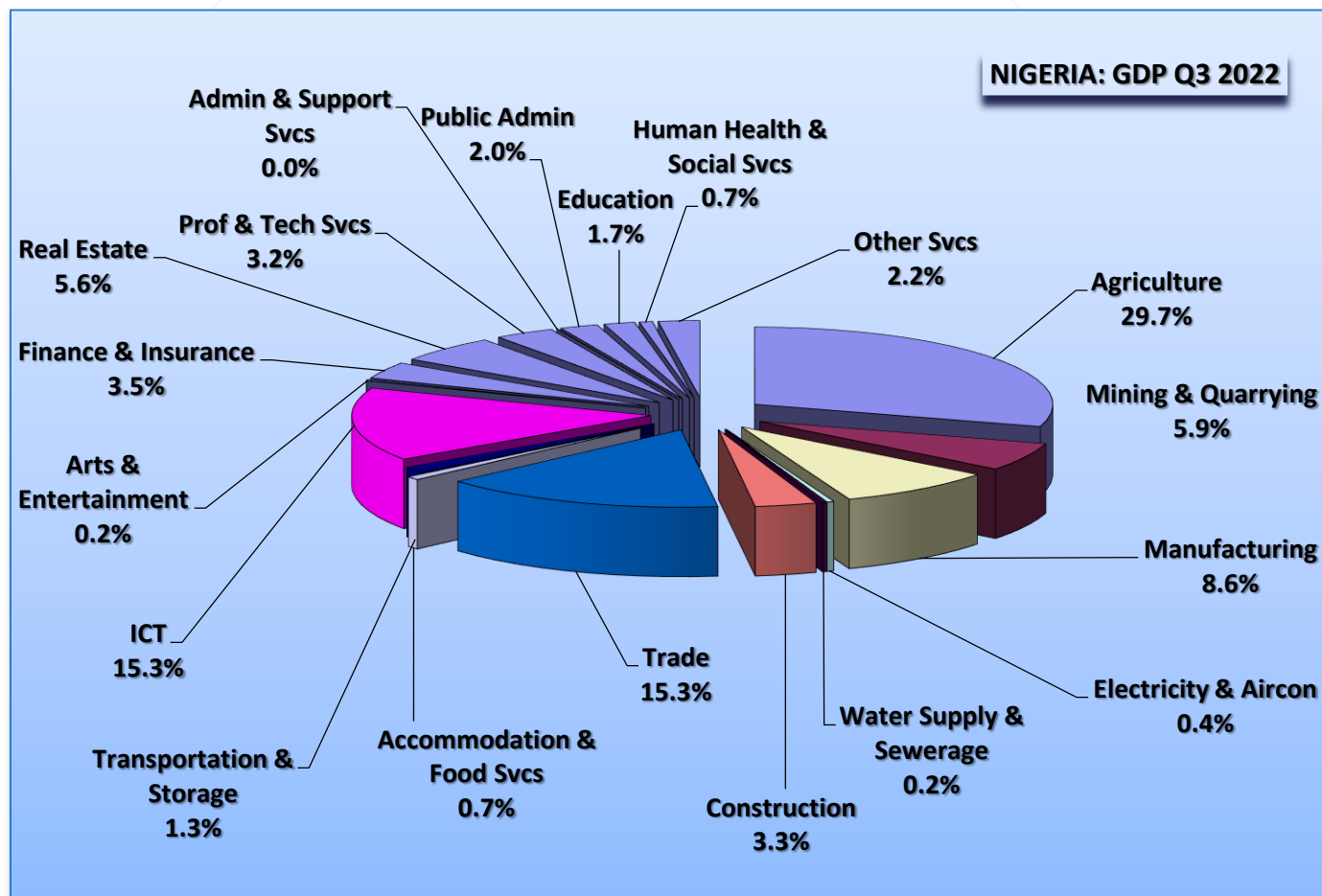


- ❑ 2021 growth exceeded the population growth rate of 2.55% in 2021; first time in 8 years. This was sustained up until June 2022; but reverted in Q3'2022.
- ❑ Nigeria now 6th most populated country in the world – estimated 216.7 million in July 2022 (UN).
- ❑ **Good prospect** for business positioning and repositioning.



Nigerian Economy: September 2022

Sectoral Contributions to GDP



- The Nigerian economy is **diversified** and there are business opportunities in **every sector** of the Nigerian economy.
- Annualized average of **2.97%** GDP growth in Q1-Q3'2022 of the Nigerian economy presents business opportunities still.
- **Oil** accounted for **79.1%** of foreign trade but only **6.21%** of GDP in Q1-Q3'2022!
 - External sector vulnerability!
- **Agriculture (29.67%), Trade (15.35%) and ICT (15.35%)** remained dominant in Q3'2022.

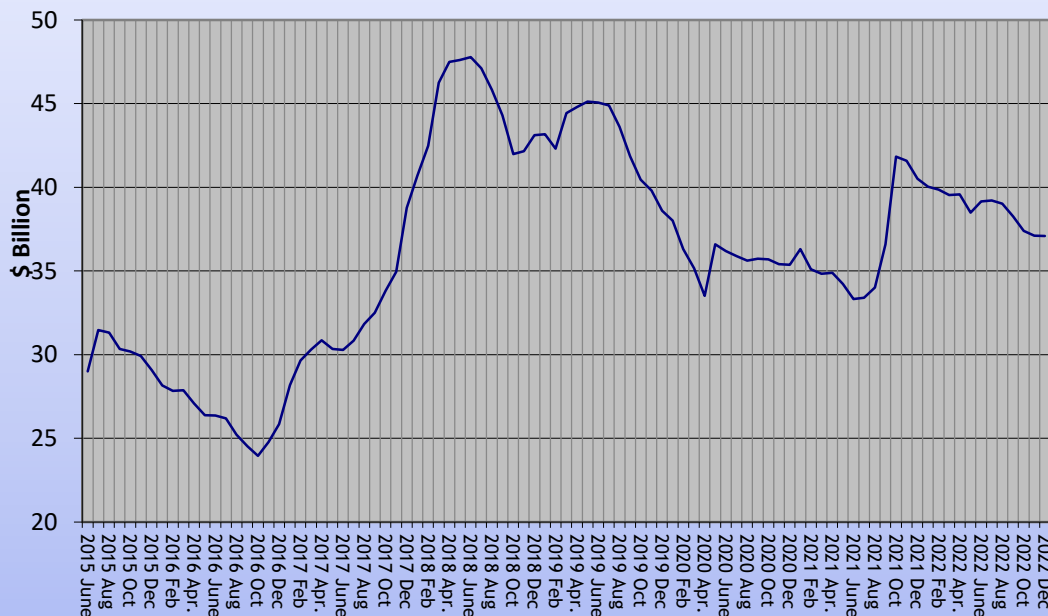
Source: National Bureau of Statistics



Nigeria: External Sector (contd.)

Dwindling Capacity to Extinguish Foreign Obligations

Nigeria: External Reserves , June'15 - Dec'22



Unrelenting import pressures vis-à-vis External Reserves' vulnerability to oil vagaries. Terms of Trade was **101.68%** in Sep'2022.

Year	₦	US\$ Equivalent
	Monthly Import	
2013	584,651.23	3,753.78
2014	614,530.88	3,657.92
2015	558,163.83	2,833.32
2016	722,027.47	2,367.30
2017	796,893.32	2,604.23
2018	1,097,093.95	3,573.60
2019	1,413,322.89	4,603.66
2020	1,057,578.65	2,783.10
2021	1,736,997.08	4,208.86
Q1-Q3'2022	1,888,903.71	4,363.67

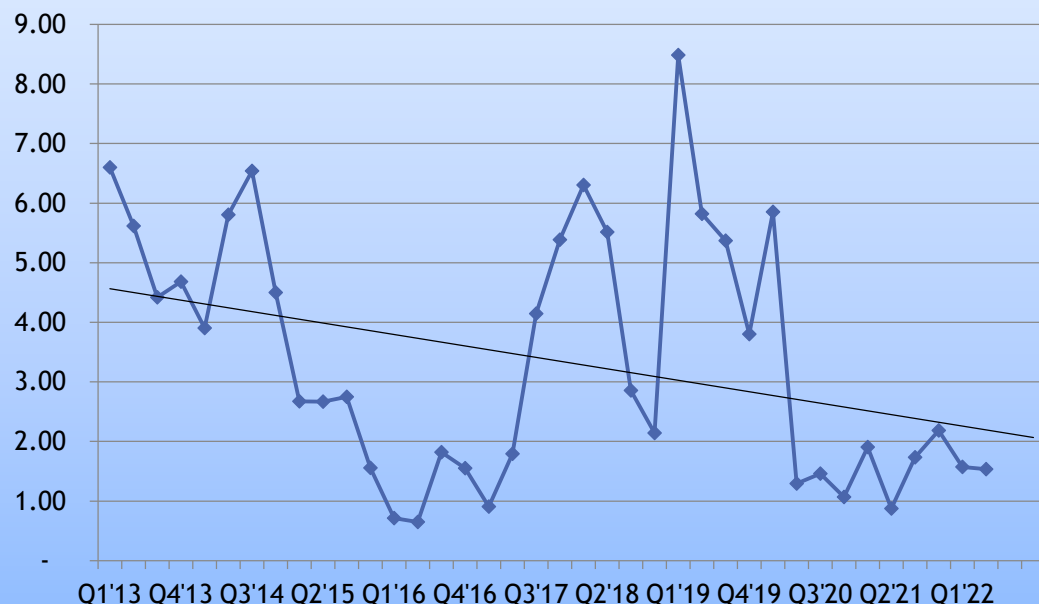
- Monthly import bill of ₦1.74 trillion (or **\$4.21 billion**) in 2021 was 51.23% more than \$2.78 billion in 2020.
 - Further extended in Q1-Q3'2022 to **₦1.89 trillion** (or **\$4.36 billion**) – slight slow down in Q2 and Q3 though.
- Liquid external reserves of **\$36.048 billion** (30th December 2022) = **8.26 months**
- Total reserves of **\$37.08 billion** on 30th Dec'22 dipped by **-8.48%**, compared to **\$40.52 billion** at end-2021!



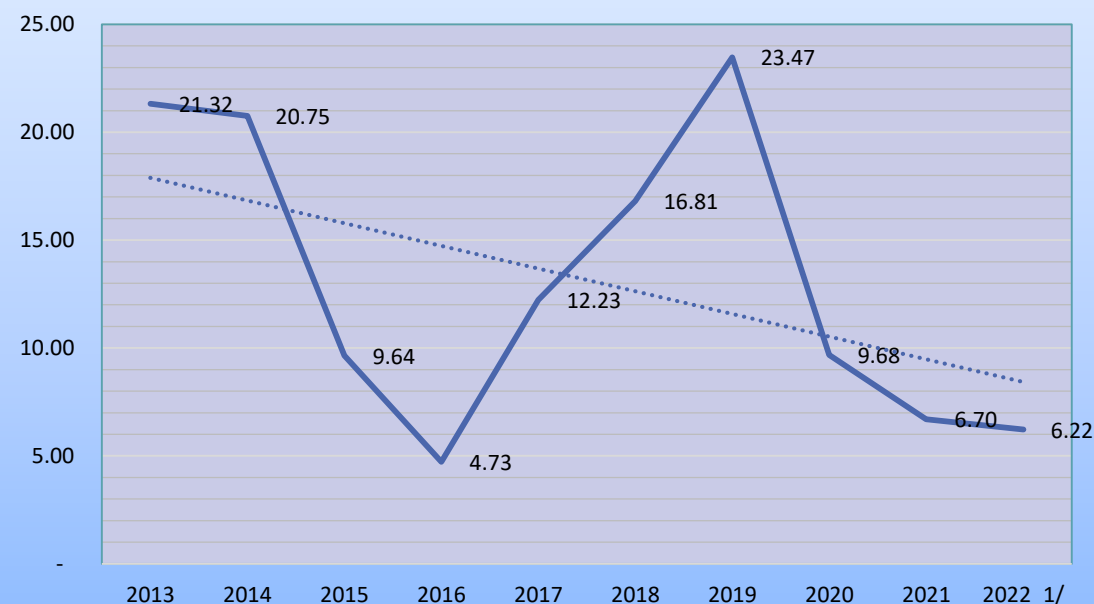
External Sector: Capital Flows

Not-so-Attractive Investment Destination (FinTech startups exception)

Capital Importation (\$'bl), Q1'2013 - Q2'2022



Capital Importation (\$'bl), 2013-Q2'2022



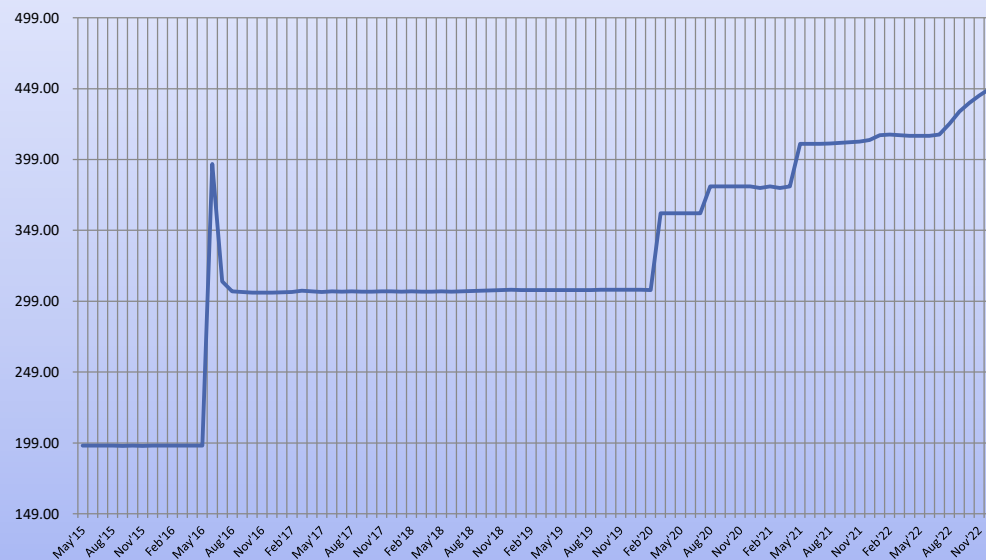
- ❑ Dip to **\$9.68b** in 2020, down to **\$6.7b** in 2021 and **\$6.17b** in 2022 (annualized) as Portfolio Investments (PI) resurged!
 - ✓ **\$23.47b** (2019), **\$16.81b** (2018), **\$12.23b** (2017), **\$4.73b** (2016) and **\$9.64b** (2015).
 - ✓ Dominated by PI in money market instruments, which accounted for **52.22%** in 2017, **68.16%** in 2018, **65.86%** in 2019, **33.63%** in 2020 and **55.38%** in 2021.
- ❑ Nigeria remains an **attractive** investment destination, but not-so-attractive in light of security concerns.



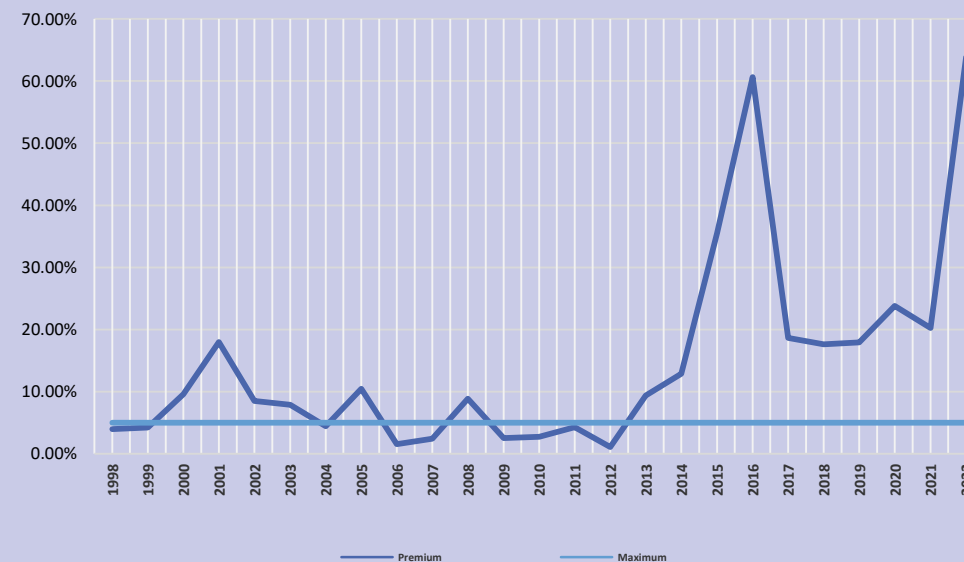
External Sector: Exchange Rates

Stable, until COVID-19; But!

Nigeria: Exchange Rates, May'2015 - Dec'2022



Nigeria: Exchange Rate Premium, 1998-Dec'22



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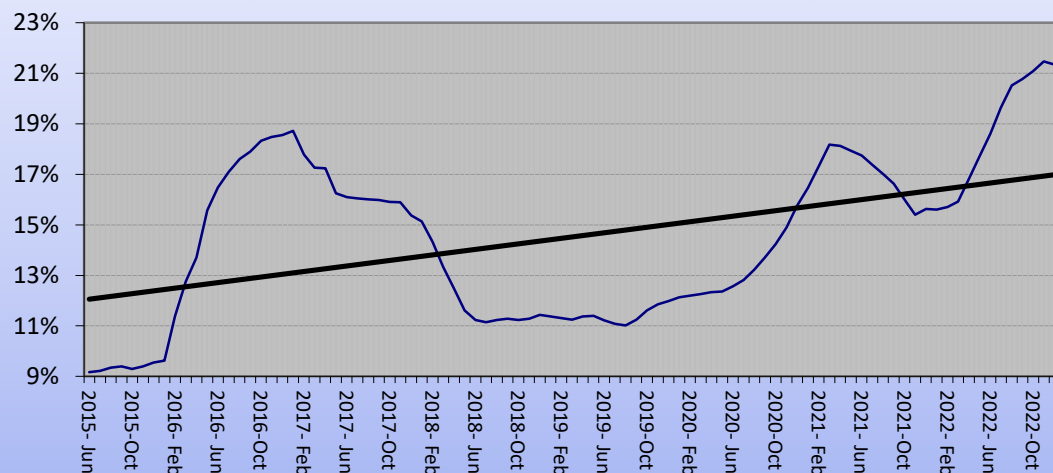
Rising and high premium makes imperative difficult choice of adjusting the official rate to close the gap (typical IMF recipe).

Financial adjustments (borrowing and non-FDI capital flows won't solve the problem, as proven historically. Devaluation and rate adjustments will be an unending cycle that will make corporate and households poorer! The enduring solution is pragmatic measures to address structural deficiencies.

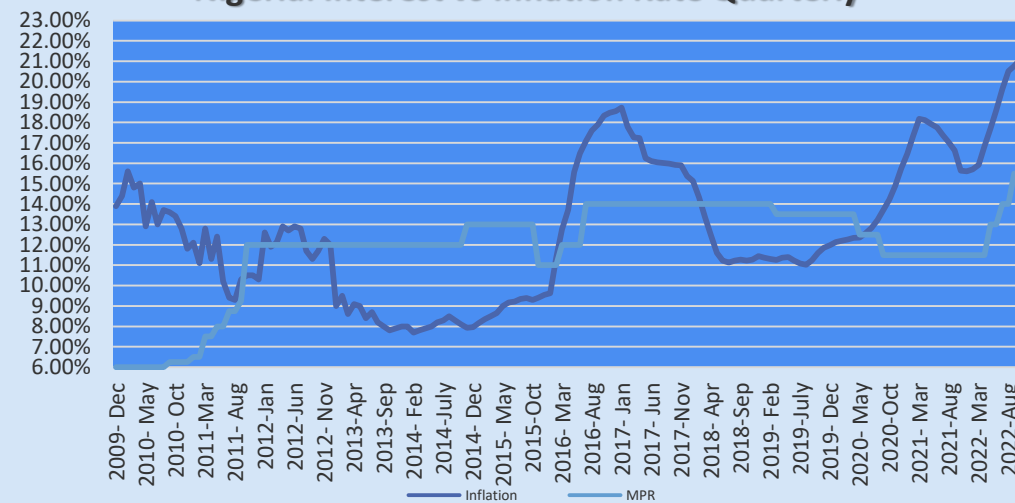


Nigeria: Inflation vs Interest (MPR) Rate 2010-2022

Nigeria: Inflation Rate (June'15-Dec'22)



Nigeria: Interest vs Inflation Rate Quarterly



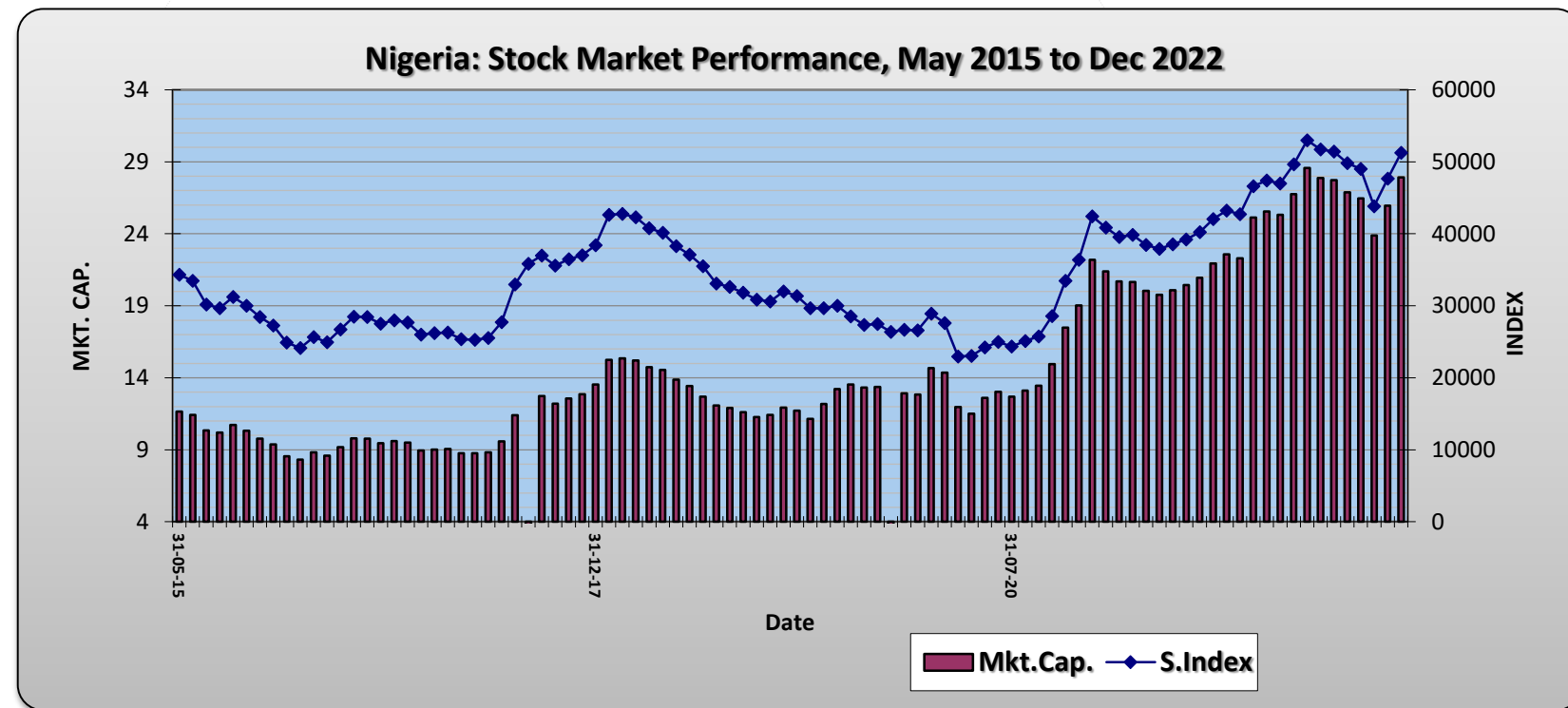
☐ Inflation spikes correlate with recessions of 2016 and 2020.

- ☐ With inflation rate persistently trending upwards, the CBN had to raise the MPR.
- ☐ Yet, the economy is desperate for growth and the big number in Nigeria is food inflation, at 24.13% (Y-o-Y).
- ☐ Food security should therefore, come big in Nigeria's economic development agenda – **availability** and **affordability**, which are two of the four categories of the EIU Global Food Security Index in which the country **ranked poorly in #97** in 2021 and **#107** in 2022 out of 113 countries. The other two categories are **quality & safety** and **sustainability & adaptation**.



Nigeria: Stock Market Performance

May 2015 to December 2022



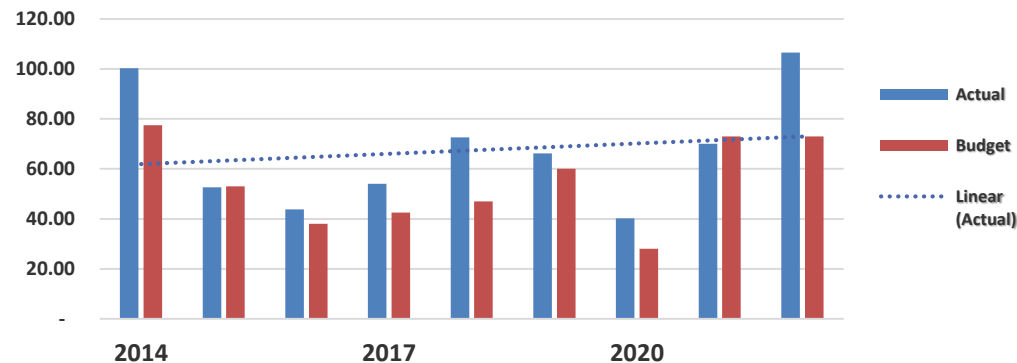
- The stock market is a **leading economic indicator**.
- The Nigerian bourse ranked among the global best performing in 2020, 2021 and 2022!
- Up until 30th December 2022:
 - Index up **19.98%**.
 - Market Cap up **20.72%**.
 - Y-t-D Return **19.98%**.
- **Money market rates** (especially fixed income securities) have risen and drawing domestic investors away from the stock market, while foreign investors are still tentative as pre-election uncertainties continues.



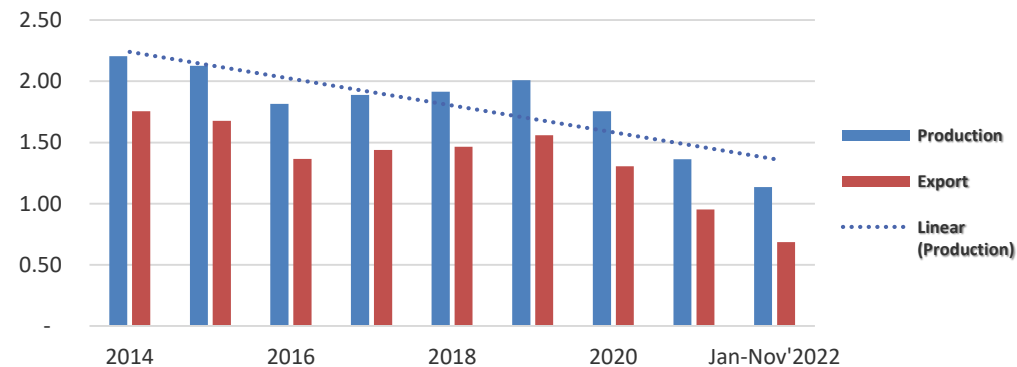
Nigeria: Crux of the Problem

Favourable Crude Oil Prices, Collapsed Production and Export

Nigeria: Crude Oil Prices



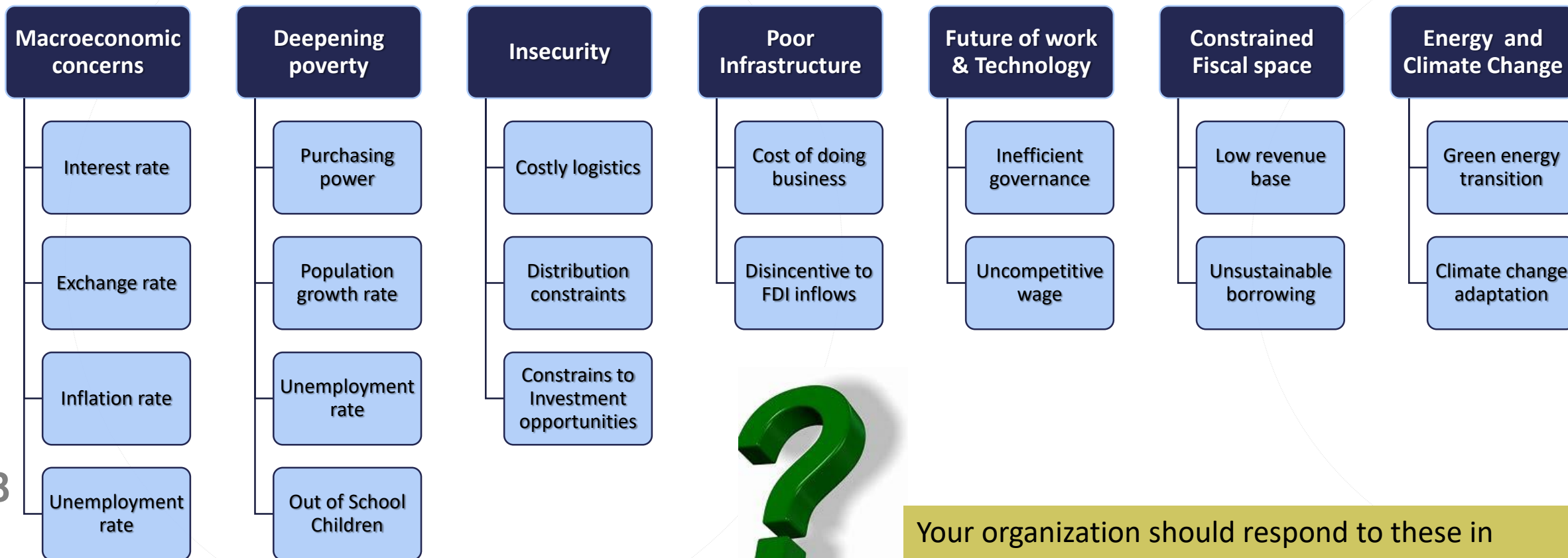
Nigeria: Crude Oil Production/Export



- **Crude oil prices** have trended upwards since 2014.
- Actual prices exceeded budget assumptions, except in 2015 and 2020.
- Nigeria has not been able to take advantage of the favourable price trend because of **weak production and export!** 2021 and 2022 have been particularly bad!
- The resulting fiscal trouble is manifest in inability to generate enough revenue to meet maturing obligations and a significant portion of revenue going into debt servicing and repayment obligations.
- It is obvious then where the solution to Nigeria's fiscal woes lies:
 - ✓ Produce/export more hydrocarbons (until non-oil revenue becomes strong enough to sustain fiscal needs).
 - ✓ Courageously address the cost of governance.



Challenges and Environmental Risks are ...



Your organization should respond to these in context of your mandate and core business by tinkering your **strategy** and **business models**.



Outlook 2023

Likelihoods and Expectations

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Global Economic Prospects

World Bank (January 2023)

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“Our latest forecasts indicate a **sharp, long-lasting slowdown**, with global growth declining to 1.7 percent in 2023 from 3.0 percent expected just six months ago. The deterioration is broad-based: in virtually all regions of the world, per-capita income growth will be slower than it was during the decade before COVID-19. The setback to global prosperity will likely persist: By the end of 2024, GDP levels in emerging-market and developing economies (EMDEs) will be about 6 percent below the level expected on the eve of the pandemic. Median income levels, moreover, are being eroded significantly—by inflation, currency depreciation and under-investment in people and the private sector.”





Global Economic Prospects: Nigeria

World Bank (January 2023)

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- ❑ Background:
 - ❑ Rising production costs
 - ❑ Underperforming oil and gas sector
 - ❑ Insecurity
 - ❑ Floods
 - ❑ Underscored by policy uncertainty
- ❑ Forecast:
 - ❑ O&G growth to be restrained
 - ❑ Growth in agric will soften
 - ❑ Persistent fuel and FX shortages
 - ❑ Weak fiscal position



BAA's Additional Notes

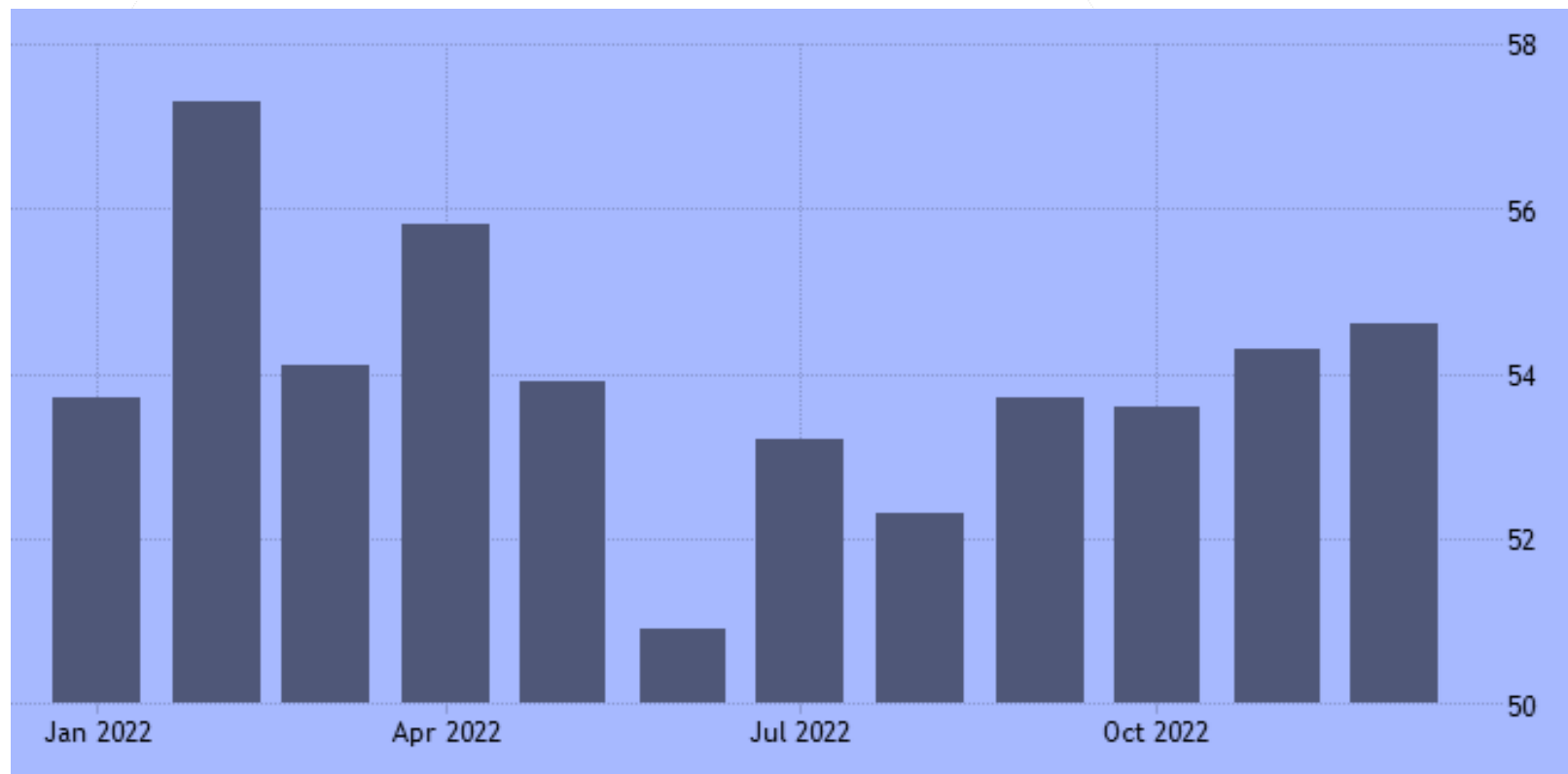
- ❑ Tax-for-road swaps (Dangote, NNPC, MTN, etc.)
 - ❑ Improving infrastructure (roads, rail, aviation and ICDs)
 - ❑ Revenue/Expenditure and Revenue/Obligations nexus
- ❑ Expanding domestic production capacity
 - ❑ Refined petroleum products
 - ❑ Rice (a major staple)
 - ❑ Consumables (food products and domestic items)
 - ❑ Automobiles

Approved tax-for-road swap is “**revenue**” that is not captured as such in capital expenditure.



Nigeria: Positive Outlook Pointer

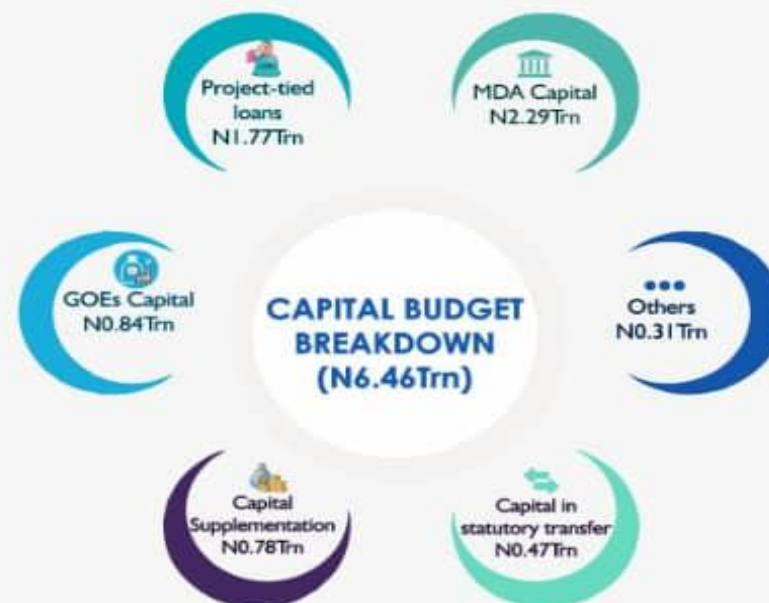
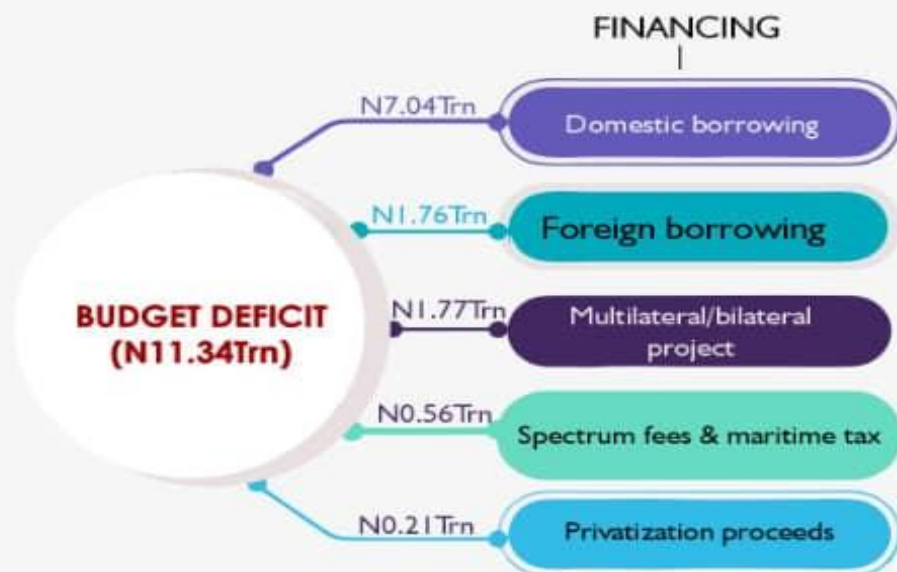
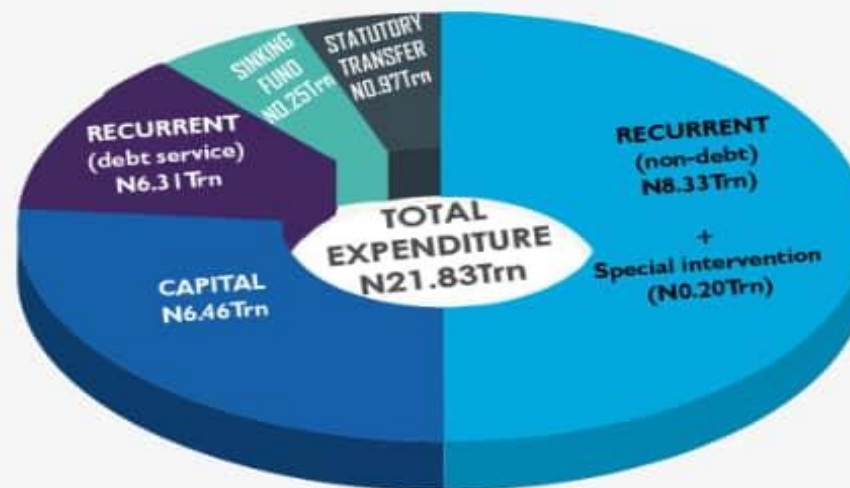
Stanbic IBTC: Purchasing Managers' Index (PMI)



- **PMI** above 50 represents improved business condition and below is deterioration.
- Survey covers 400 companies in five sectors – agriculture, manufacturing, services, construction and retail.
- In December 2022, it quickened to 8-month high, and represents persistent expansion in the last 25 months!
- Staffing levels increased for the 23rd month running – fastest in August 2022.
- Purchase costs rose sharply though because of FX rate.



2023 Federal Government of Nigeria Approved Budget



Source: FMFBNP, BOF, ADSR Research



2023 Economic Outlook

Positive Gross Domestic Product (GDP) growth in 2023: slight improvement over expected 3.19% for 2022: Improve to **3.27-3.32%%**.

Inflation rate is expected to moderate, but still double digit. Expect **17.76%**.

Monetary policy normalization could start as early as Q2, but assured for H2, with downward adjustment of MPR certain for H2. Expect **13.5%**.

Bank lending rate will remain double digit, but continue to respond to the rate of inflation.

Accelerated manufacturing and focused export promotion will bring some stability to the Naira exchange rate. Official likely at about **N480/\$** and roadside at **N705/\$**.

30 Improvement in infrastructure will begin to positively impact the cost of doing business.

Intensified digitalization and ascendancy of the digital economy.



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Sectoral Prospects

What to Expect

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Manufacturing

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Continuing expansion.

New manufacturing along existing corridors – mostly Chinese and Indian

Growing export focus

Moderating cost of doing business



Energy: Beyond O&G

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Crude oil production to recover.

Intensified new investments in gas development and production.

Growing corporate and sovereign investments in green energy.

Significant reduction in importation of refined petroleum products.

Shrunk space for oil subsidy.

Stronger consumer interest in energy efficiency.



Banking and Finance

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Rate normalization as inflationary pressures subside.

Naira exchange value stability.

Further business expansion as economy picks up strongly in H2.

New reform initiative and license redefinition.

New investments, acquisitions and new players. Towards year-end, new foreign franchises likely to seek acquisitions.



END NOTES

End Notes

Putting It All Together

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Nigeria and Possibilities

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Expected growth is supported by:

- Large, youthful and rapidly growing population (**6th largest** in the world, median age at **18.1 years**);
- Rapid urbanization (**51.96%** in 2020, up from 47.84% in 2015);
- Deepening internet penetration (at **51.0%** in Jan 2022, rising from 46.6% in 2020 on the back of teledensity of **114.7%** in Nov 2022 and 107.14% in 2020; Nigeria **ranks 8th** in the # of global internet users);
- Strengthening innovation culture, driven by the survival instinct.
- Strongly evolving payments infrastructure, volume and value.
- Increasing attention to global competitiveness and Ease of Doing Business.



Finally: Challenges and Learning

“It is in the character of growth that we **learn** from both pleasant and unpleasant experiences.”

Nelson Mandela



Contact us:

Bring it on!



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Thank you

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