CORONATION

BLEND OF OPTIMISM AND UNCERTAINTY

ECONOMIC REVIEW AND 2022 OUTLOOK

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Economic Review and 2022 Outlook
Blend of Optimism and Uncertainty

Upward trajectory but no dramatic GDP rebound

Nigeria's economy has posted GDP expansion for four quarters since its last recession recorded in 2020. However, the current growth rate levels are unable to halt the steady decline in incomes and the rise in poverty. Our in-house estimates assume GDP at current market prices as high as pre-pandemic levels (2019). We considered increased vaccination rate, stable oil prices above USD65/b and sustained growth in the major sectors, among other factors. Consumption patterns are relatively better and are almost mirroring pre-pandemic levels. This year, we expect some fiscal stimulus on the back of the FGN's capital expenses. Furthermore, we anticipate investment spending in targeted sectors. Looking ahead, overall pre-election expenditure towards the 2023 general elections should also contribute to the growth drive. For 2022, we expect a GDP growth of 2.6% y/y.

Elevated oil price regime

The healthy oil price level and resultant oil revenue should give a small boost to government and household spending and should ease pressure on the current account and fx markets. The upside risks in the 2022 outlook for oil rests on the possibility that oil demand might be stronger than anticipated as global aviation activity normalise and expectations of supply constraints given that OPEC+ continues to struggle with hitting its quota. Downside risks include the emergence of COVID-19 variants that could render the vaccines ineffective, Iranian oil coming into the market as talks resume on Iran's nuclear program and an acceleration in US oil production. The FGN's adoption of a conservative oil price assumption creates a little headroom within the 2022 budget.

One rate hike, not far-fetched

We expect the monetary policy committee to maintain its cautious stance on monetary policy parameters. The assumption of one policy rate hike (of at least 50bps) this year is not far-fetched. The committee is still leaning towards striking a balance between supporting GDP growth while maintaining stability across inflation, exchange rate, and market rates. We currently see the MPR at 12.0% by end-2022.

Expected rise in FGN bond yields

The 2022 FGN budget has an estimated aggregate expenditure headline at N17.1trn, which is 18% higher than the 2021 FGN aggregate expenditure of N14.6trn. We expect increased domestic borrowing by the FGN due to the large deficit in the 2022 budget (N6.39trn, approximately 4.1% of total GDP (in 2020)). We see mid-curve FGN bond yields around 8.0% to 11.0% range over the next three months.

Core Economic Indicators

	2019	2020	2021F	2022F
Real growth (in percent)	2.3	-1.9	2.8	2.6
CPI (in percent; y/y; Year-end)	12.0	15.8	15.6	13.9
Monetary policy rate (%; year-end)	13.5	11.5	11.5	12.0
Bonny Light (end-period spot; USD/b)	67.9	51.3	76.3	72.0
Bonny Light (average spot; USD/b)	65.5	42.1	71.1	74.5
Official fx reserves (in USD bn; year-end)	38.6	35.4	40.5	38.0
NAFEX/I&E (NGN/USD; end-period)	364.5	410.3	435.0	434.0
1 Year NTB (in percent; end-period)	6.2	0.7	5.2	8.0

Source: CBN, National Bureau of Statistics (NBS), FMDQ, Coronation Merchant Bank Economic Research

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Economic and Policy Backdrop

The current administration has recorded a few wins but also experienced two economic recessions: One in 2016, triggered by crashing oil prices and the other in 2020 on the back of the COVID-19 pandemic. We highlight some policy action plans created to combat macroeconomic headwinds and boost growth and development.

Economic diversification and import substitution

The Buhari administration sought to diversify the economy away from crude oil from the onset. The administration planned to achieve this through import substitution, backward integration, and infrastructure spending. The assumption was that trade restrictions such as tariffs, import quotas and bans, and bolstering local content would attract targeted investments that should assist with developing the country's domestic capacity and reduce importation.

To achieve these objectives the Central Bank of Nigeria (CBN), in 2015, restricted the importation of 41 broad categories of traded goods from accessing the official foreign exchange (fx) market. The ban list was expanded to 42 items with the addition of fertilisers in 2018. Furthermore, in 2020, as part of its efforts to increase local production, the CBN directed all authorised dealers to discontinue the processing of Form "M" for maize/corn importation into the country. However, the desired impact of a significant boost to GDP growth and job creation was blunted by a shortage of critical inputs for various sectors and the large-scale smuggling of produce (most notably, rice) into the country through the porous land borders.

Apart from the fx ban, the Buhari-led administration is also known for the active role public agencies play in promoting the import substitution policy. For instance, in collaboration with other agencies like the Bank of Industry (BOI) through several interventions, the CBN has improved access to credit for SMEs within specific sectors of the economy that are often regarded as high-risk.

These interventions include establishing a N1trn intervention fund for the local manufacturing sector in 2020. The fund has disbursed a total of N1.08trn to 331 projects across various sectors in agro-allied, mining, steel production, and packaging industries as at end-November '21. This includes the disbursement of N134.6bn to 37,571 entrepreneurs under the Agri-business Small and Medium Enterprise Investment Scheme (AgSMEIS). AgSMEIS is a voluntary initiative of the bankers' committee that seeks to promote agricultural businesses and SMEs as vehicles for sustainable economic development.

In collaboration with the Federal Ministry of Agriculture and Water Resources (FMA&WR), the CBN established the Commercial Agriculture Credit Scheme (CACS). The scheme has disbursed N864bn to 4.1 million farmers, cultivating 5.0 million hectares. In addition, the CBN has also disbursed N41.2bn for the commencement of the brown revolution, a large-scale wheat program projected to reduce wheat importation by 35% in 2022.

The Anchor Borrowers' Programme (ABP) is another initiative aimed at creating economic linkages between Small Holder Farmers (SHFs) and reputable companies (anchors) involved in producing and processing essential agricultural commodities. Cumulatively, under the programme, the CBN has disbursed N927.9bn to over 4.5 million SHFs cultivating 5.3 million hectares of land across 21 commodities through 23 Participating Financial Institutions (PFIs). According to the CBN, Nigeria has significantly reduced rice importation by over 90% over the past seven years. In addition, the strategic maize reserve programme of the CBN has assisted with moderating the price of maize via direct targeting of large feed mill producers.

Furthermore, the CBN recently introduced the 100 for 100 policy. It is designed to boost investments into SMEs focused on improving import substitution. The CBN has disbursed a total of N23.2bn to 28 firms which had projects that satisfied the bank's criteria. This policy, if implemented effectively, will promote economic diversification, increase non-oil exports and enhance the country's fx-generating capacity. To date the CBN has granted over N3trn in intervention loans.

The Nigerian Export Promotion Council (NEPC) also highlighted 22 products, divided into two categories, that can help the country diversify its exports away from crude oil. The first category includes petrochemicals & methanol, gold, nitrogenous fertilisers & ammonia, hides & leather, and cash crops such as soybeans, cotton, palm oil, rubber and cocoa. Under the NEPC's plan, the second category comprises cement and clinker, fresh and processed tomato, banana, plantains, cashew, sesame seeds, cassava, oranges, spices, ginger, shea butter, and cowpea.

Improved capital expenditure is also a critical feature of the Buhari administration's import substitution goal. In addition, the Economic Recovery and Growth Plan (2017-2020), Economic sustainability plan (2020) and National Development Plan (2021-2025) emphasise investments in infrastructure, especially in power, roads, rail, ports and broadband networks, noting their necessity in promoting economic diversification.

We note that the 2019 Global Competitiveness Index report reveals Nigeria scored 48.33 points out of 100 and ranked 130 out of 141 countries surveyed for overall quality of infrastructure. This is well behind Egypt (52nd), South Africa (69th), and Algeria (82nd). The World Bank estimates that Nigeria needs to invest at least USD3trn in infrastructure to significantly reduce the infrastructure gap. The FGN has begun to reduce the infrastructure deficit through increased spending as part of a 30-year infrastructure plan (National Integrated Infrastructure Master Plan) with a target date of 2043. Given the huge capital layout required to address the massive infrastructure deficit in the country, the private sector is expected to play a crucial role in providing critical infrastructure through public-private partnership (PPP) arrangements and indirectly through the purchase of infrastructure bonds.

An example of such PPP initiative is the Road Infrastructure Development and Refurbishment Investment Tax Credit Scheme. The scheme leverages private sector capital to develop and refurbish road networks in industrial clusters and key economic areas.

Another is the establishment of the Infrastructure Corporation of Nigeria Limited (InfraCo). This is a N15trn (USD36bn) privately managed infrastructure and industrial fund expected to harness Nigeria's infrastructure development opportunities by originating, structuring, executing, and managing end-to-end bankable projects. We note that N1tn (USD2.4bn) out of the N15trn (USD36bn) is equity contributed by the CBN, the African Finance Corporation (AFC), the Nigeria Sovereign Investment Authority (NSIA) and others. At the same time, the remaining N14trn (USD33bn) would be accessed through the debt market. As at end-2021, Infraco had provided N170bn (USD408m) in bridge financing for the rehabilitation of the Lagos- Ibadan expressway and Abuja-Kano highway and the construction of the second Niger Bridge.

The closure of land borders in August 2019 was another import substitution policy designed to stem the flow of smuggled goods such as rice. This, however, led to increased prices of staple foods. Therefore, emphasizing the severe domestic shortage for these products. The borders were reopened in November '20. However, there was an emergence of retaliatory tariffs by neighbouring countries.

The USD19bn (USD45.6m) Dangote refinery and petrochemicals complex, ,is the largest import substitution project in the country. It has an expected refining capacity of 650,000 b/d and is expected to commence operations this year. The project is expected to expand domestic gasoline and diesel production and reduce the country's dependence on fuel imports. Upon completion, the refinery is expected to add 12,000 megawatts (MW) to the national grid , generate annual fx savings and export earnings of c.USD7.5bn and c.USD5.5bn respectively.

The Nigerian National Petroleum Corporation (NNPC) will acquire 20% of the Dangote refinery for USD2.7bn. This is in line with the government directive stipulating the mandatory participation of the corporation in any privately-owned refinery that exceeds 50,000bpd capacity. This acquisition ensures that the NNPC takes a leading role in securing the country's fuel refining capacity and ensuring that supply remains accessible. In addition, the NNPC has signed a USD1.5bn contract for the rehabilitation of the Port Harcourt refinery. The refinery has a crude processing capacity of 210,000 bpd.

Impact of Treasury Single Account (TSA)

In an attempt to plug revenue leakages, the Treasury Single Account (TSA) was created. It is part of the FGN's public financial management reform programme. Through it, all FGN accounts belonging to ministries, departments, and agencies (MDAs) were harmonised into a single account and linked to the Consolidated Revenue Fund (CRF).

The policy was first developed under the previous administration for improved fiscal housekeeping on the revenue side. It ensures that funds and transactions are monitored and minimises revenue leakages. According to the FGN, the TSA has resulted in the consolidation of more than 17,000 bank accounts previously spread across deposit money banks (DMBs) in the country and savings of an average of N4bn (USD9.6m) monthly in banking charges.

Petroleum Industry Act (PIA)

The Buhari-led administration also succeeded in putting plans into motion to reform Nigeria's oil industry with the signing of the petroleum industry bill (PIB), now Petroleum Industry Act (PIA), into law by the president in August '21. Before the PIA was signed, the oil and gas industry had four major regulations: the Petroleum Act 1969, the Petroleum Profits Tax Act, the Deep Offshore and Inland Basin Production Sharing Contract Act, and the Associated Gas Reinjection Act. The outdated nature of most of these laws and regulations made them inconsistent with current economic realities. The PIA seeks to provide the legal, regulatory, governance, and fiscal frameworks required to drive growth within the petroleum industry.

The key objectives of the PIA are:

- To create efficient and effective governing institutions with clear and separate roles for the petroleum industry.
- To establish a framework for creating a commercially oriented and profit-driven national petroleum company.
- To promote transparency, good governance, and accountability in the administration of the petroleum resources of Nigeria.
- To foster a business environment conducive to petroleum operations.
- To deepen local content practice in the oil and gas industry.

One significant change is the incorporation of the NNPC, thereby balancing its commercial and non-commercial interests. changes include the establishment of the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) to regulate upstream petroleum operations and the establishment of the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA) to regulate midstream and downstream petroleum operations.. Additionally, a progressive cost-reflective pricing framework was established, with a structure for market intervention through domestic gas supply obligations and a wholesale natural gas market scheme.

Regarding the host communities, the PIA provides for host community development funds. These funds are expected to be established by the oil firms (contributions of 3% of actual annual operating expenditure) to foster sustainable prosperity within host communities and enhance harmonious coexistence between the oil and gas companies and the host communities. If implemented diligently, the PIA could accelerate Nigeria's economic development by attracting and creating investment opportunities for local and international investors in the oil and gas space.

The question of how much investment Nigeria will be able to attract into the oil and gas sector amidst the ongoing global energy transition, currently has an unknown answer. However, over the past few years, clean energy has attracted sizeable investments into the energy sector clean energy has attracted significant investment into the energy sector over the past few years. In August, the NNPC declared N287bn (USD689m) profit after tax (PAT). The corporation's financial records showed that the corporation incurred losses close to N1trn (USD2.4bn) in 2018 and N1.7bn (USD4m) in 2019.

The National Development Plan (2021-2025)

The National Development Plan (2021-2025) is the successor to the Economic Recovery and Growth Plan (2017-2020), which lapsed in December '20. The new plan aims to achieve a broad-based real GDP growth rate of 5% on average during the plan period, generate 21 million full-time jobs and lift 35 million people out of poverty by 2025. To achieve these, the plan will require an investment commitment of about N348.1trn (USD836bn). The public sector is expected to provide N49.7trn (14.3%) by broadening the tax base and exploring opportunities for domestic borrowing, concessional foreign borrowing, and securitisation. The balance of N298.3trn (85.7%) is expected to emerge from the private sector. The successful implementation of this plan will rely strongly on private and public sector partnerships.

Credit rating views (S&P, Fitch & Moody's)

As for credit ratings, Moody's raised the outlook for Nigeria from negative to stable and affirmed its long-term issuer and senior unsecured ratings at B2 in December '21. According to their presentation, this improved outlook results from the faster-than-expected recovery of the economy from the COVID-19 pandemic and the strengthening of the external balance sheet following the SDR allocation in August, Eurobond sale in November and the higher oil price environment. In addition, the rating agency believes the PIA and the opening of the Dangote refinery will structurally reduce demand for US dollars.

However, Moody's expects oil exports to produce less robust revenues at peak oil prices and weaker revenues at lower oil prices. This is because global initiatives to limit the adverse impact of climate change will increasingly constrain the use of hydrocarbons and accelerate the shift to less environmentally damaging energy sources. Moody's expects Nigeria's fiscal deficit to narrow very slowly, despite efforts to increase non-oil government revenue. This is due to weak governance and institutional capacity for execution. General government debt (including central bank funding and promissory notes) is projected to rise gradually, towards 35% of GDP by 2025. The rating agency sees average growth for the country between 3.0% and 3.5% through to 2025.

Fitch Ratings affirmed Nigeria's Stable Outlook and 'B' rating in 2021. According to the agency, the outlook was supported by a relatively low government debt-to-GDP ratio, a relatively small foreign-currency indebtedness and a comparatively developed financial system. However, their rating is constrained by weak fiscal revenue, comparatively low governance and development indicators, high dependence on hydrocarbons, continued weak growth and high inflation. Fitch expects Nigeria's real GDP to grow by a modest 2.1% in 2021 and accelerate to 2.8% in 2022 on the back of more robust household spending and increases in fixed investment and oil exports.

If the domestic vaccine rollout proceeds more slowly than currently anticipated, Fitch expects that the FGN would move to tighten COVID-19 related restrictions, hampering the already subdued recovery in private consumption. In addition, new variants that render currently available vaccines less effective would pose significant headwinds to Nigeria's economic recovery.

S&P Global Ratings affirmed its 'B-/B' long- and short-term sovereign credit ratings on Nigeria. The outlook is stable. The rating agency also affirmed their long- and short-term Nigeria national scale ratings at 'ngBBB/ngA-2'. The stable outlook indicates that the agency expects COVID-19-related pressures to continue to weigh on Nigeria's GDP growth and fiscal and external metrics, but improved oil prices should support GDP growth.

S&P suggests that Nigeria's rating could tilt upwards if the economy performs better than expected or if external financing pressures are contained, while fiscal deficits reduce faster than projected. However, the rating could tilt downwards if risks to the country's capacity to repay commercial obligations increase, either because of declining external liquidity or a continued reduction in fiscal flexibility. S&P projects GDP growth to 1.8% in 2021 and an average of 2.3% in 2021-2024. Relatively high inflation is also expected over the next few years.

Combating COVID-19

Similar to other countries across the globe, Nigeria incurred economic scarring from the emergence of the COVID-19 pandemic. The country has witnessed four waves of the virus, and according to the Nigeria Centre for Disease Control (NCDC), as at 09 January '22, there have been 248,312 cases and 3,077 deaths reported. The reported deaths have been relatively few for a population of about 200 million.

In March '20, in response to the spread of the virus, the FGN imposed a lockdown for more than two months and closure to international air traffic for about six months. The CBN led the domestic support package with N3.5bn (USD8.4m), consisting largely of credit interventions off its balance sheet and disbursed the sum of N108.7bn (USD261m) to hospitals and the pharmaceutical industry.

Additionally, Nigeria received USD3.4bn from the IMF in April '20 from one of its rapid credit facilities to combat COVID-19 and support Nigeria's balance of payment needs. The FGN has also deployed funds to support the youth under the Special Public Works initiative and job creation schemes. Furthermore, the FGN instituted a three-month repayment moratorium on social investment programmes such as TraderMoni, MarketMoni and FarmerMoni. This is in addition to FGN-funded loans issued by the BOI, Bank of Agriculture and the Nigeria Export-Import Bank.

Vaccination against the virus began on 05 March '21. According to the National Primary Health Care Development Agency (NPHCDA), Nigeria has received c.10 million doses of vaccines. According to local reports, in late 2021, up to a million Oxford-AstraZeneca, COVID-19 vaccines were discarded due to their close expiry dates. As at 15 January '22, c.12.7 million people had received the first dose of the vaccine and c.4.9 million people (c.4.4% of the total population) had received a second dose of the vaccine. This is compared with African countries like South Africa (27%), Egypt (23.8%), and globally like China (84.5%), EU (70.4%) and US (62.5%). There are currently few restrictions in operation in the country, although working from home is largely encouraged.

Unemployment steadily rising

Given its hazy business environment, and its macroeconomic challenges, Nigeria has struggled with reducing its unemployment rate. Over the past several years, the rate has steadily trended north. Although lagged, the latest labour force report from the National Bureau of Statistics (NBS) shows a rise in the national unemployment rate from 23.1% in Q3 '18 to 33.3% in Q4 '20. This increases to 56.1% when we add underemployment (the bureau did not produce any reports between Q3 '18 and Q2' 20 due to operational and financing constraints).

According to a report from the NBS titled 'the impact of COVID-19 on business enterprises in Nigeria 2021', the rise in the unemployment rate can be attributed to the effects of COVID-19 in 2020 on businesses. This has resulted in the retrenchment of employees in an attempt to stay afloat. In addition, the shutdowns of enterprises severed crucial livelihood lines for households that depended on them for income, coupled with the lack of new business opportunities and reduction in capital investments, further limiting new job prospects.

Based on the employment figures, the working-age population (Nigerians of employable age between the ages of 15 and 64) stood at 122 million in Q4 '20, showing an increase of 5.7% compared with 115 million in Q3 '18. However, considering the working population willing to work, the figure stood at 69.7 million in Q4 '20. This is a decline of -23.0% when compared with Q3 '18. We suspect that the decline recorded in the total number of the working population willing to work is partly due to the emigration of young professionals and entrepreneurs. According to the NBS report, in Q4 '20, the unemployment rate was highest within the age groups 15-24 (53.4%) and lowest between 45-54 (25.4%). Imo state had the highest unemployment rate (56.6%) while Osun state had the lowest (11.7%).

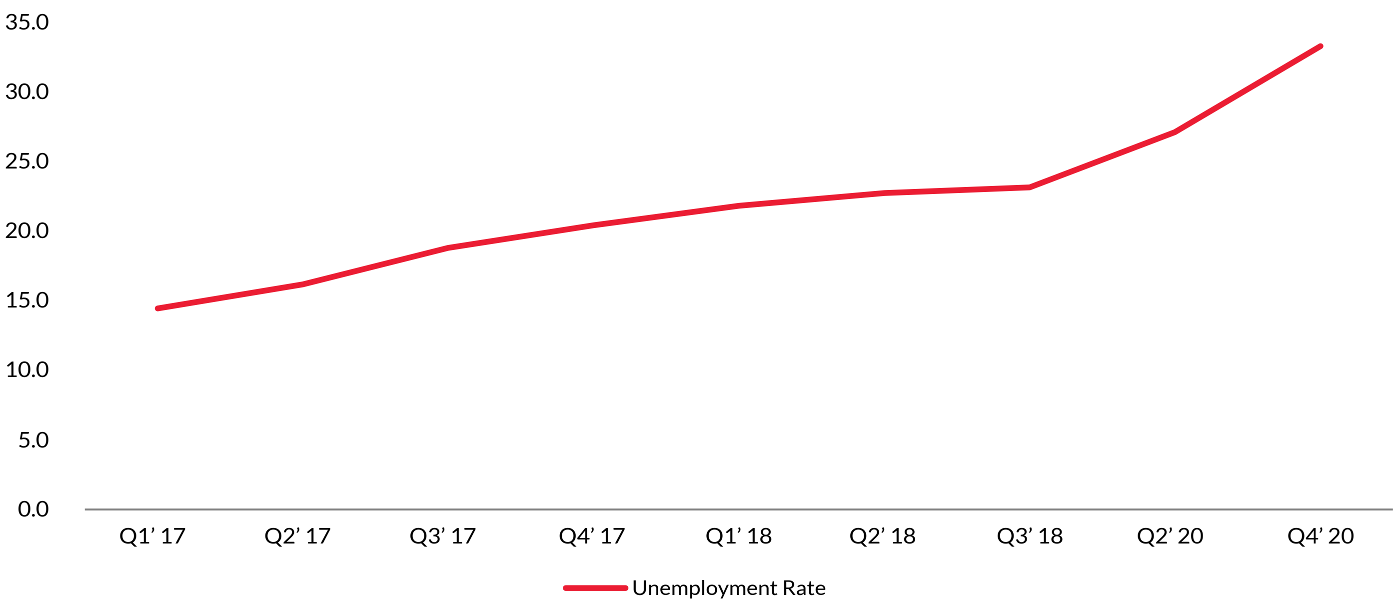
Turning to the interventions by the FGN to reduce unemployment, we note that the FGN flagged off the N75bn National Youth Investment Fund (NYIF) to provide financial support and employment opportunities for youths and youth-owned businesses in October '20. Furthermore, in January '21, the FGN launched the N52bn special works program designed to engage 774,000 unemployed Nigerians. In September '21, the FGN established the Nigerian Youth Employment Action Plan (NIYEAP 2021-2024), aimed at mobilising the youth to become more productive, which by extension should partially minimise risks to national security posed by rising unemployment. Other notable interventions include the Tertiary Institutions Entrepreneurship Scheme (TIES) the N-Power Program, among many others.

According to the NBS study titled 'the impact of COVID-19 on business enterprises in Nigeria 2021', 43% of enterprises surveyed experienced a decline in the workforce, with around 20% of workers in the surveyed enterprises losing their jobs during this period. However, 57% of businesses maintained their staff strength during the pandemic. Additionally, 80% of enterprises reported a decrease in sales between Q2 - Q4 '20 and 73% of the businesses surveyed faced liquidity challenges during the pandemic.

The CBN introduced a N50bn targeted credit facility (TCF) to assist businesses and as a stimulus package to support households and Micro, Small and Medium Enterprises (MSMEs). Furthermore, the FGN implemented a three-month repayment moratorium for all TraderMoni, MarketMoni, and FarmerMoni loans. A similar moratorium was imposed on all FGN-funded loans issued by the Bank of Industry, Bank of Agriculture and the Nigeria Export-Import Bank, among many others.

Small businesses are regarded as the engine of the economy, partly due to their ability to provide jobs. Official data show that the 37+ million micro, small and medium scale enterprises (MSMEs) in Nigeria provide over 59 million jobs and account for almost 50% of GDP. Based on industry sources, MSME's account for c.50% of the country's GDP and c.80% of total employment. It is also worth noting that the shortage of critically needed skills and competencies is another factor behind joblessness. This is likely to worsen as the future of work, which threatens to render the skills of some employees and jobseekers obsolete, comes into play. The FGN should consider revamping curricula across all education levels to properly incorporate technology since artificial intelligence algorithms will, at some point, become co-workers with humans.

Unemployment rate (%)



Sources: NBS, Coronation Merchant Bank Economic Research

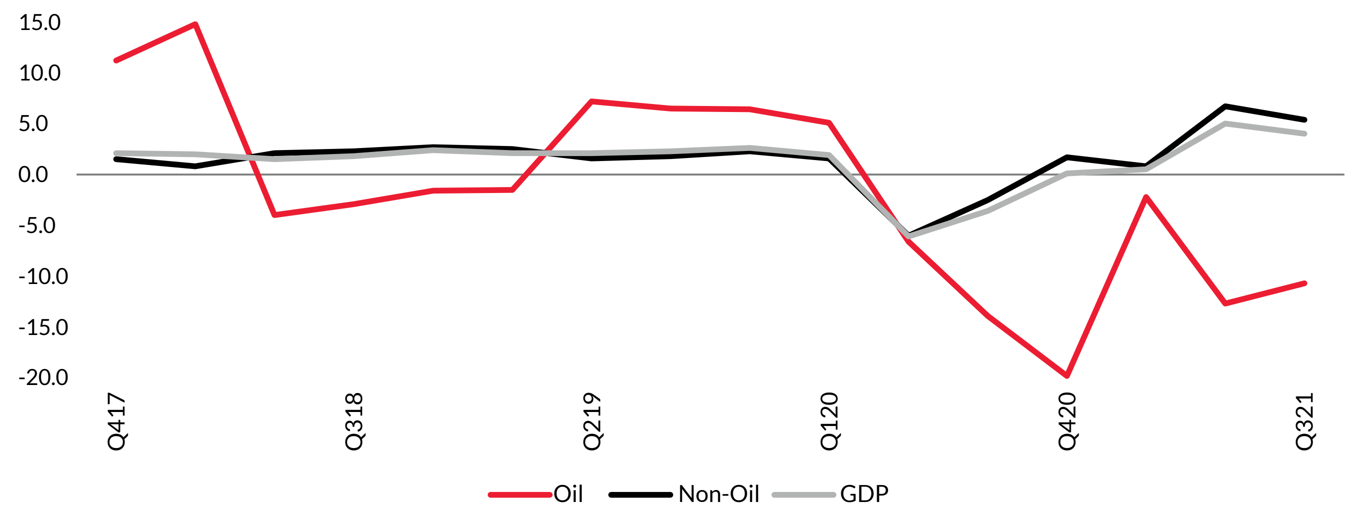
Drivers of the economy

Green shoots in the non-oil economy

At the end of Q3 '20, due to the decline in global crude oil prices and the COVID-19 induced lockdowns, the national accounts data from the NBS showed that the economy experienced another decline of -3.62% y/y. This is compared with the -6.10% y/y contraction recorded in Q2 '20. The consecutive contractions effectively plunged the economy into its second recession in four years. However, by Q4 '20, due to the reopening of the economy and the fiscal and monetary stimulus, the economy entered recovery mode with a GDP growth rate of 0.1% y/y in Q4'20.

The economy remained on a growth trajectory in 2021 partly due to favourable base effects, the improvement in global oil prices, steady progress in stemming the spread of the coronavirus through vaccinations and the resumption of economic activities. It posted growth rates of 0.5% y/y, 5.0% y/y and 4.0% y/y in Q1, Q2, and Q3 '21, respectively.

Real GDP, Oil, and Non-oil growth (% change; y/y)



Sources: NBS, Coronation Merchant Bank Economic Research

The CBN currently estimates annual population growth at 2.8%. According to the World Bank, income per head declined by -5.9% in 2020. Nigeria requires a GDP growth rate of at least 7-8% y/y to make an appreciable impact on living standards. The national census set for 2022 has been postponed due to insecurity challenges.

Non-oil GDP

Since the end-2020, the non-oil sector has been the core driver of economic growth, averaging 1.2% y/y over the past eight quarters. In Q3 '21, the non-oil sector grew by 5.4% y/y compared with the 6.7% y/y recorded in Q2 '21. This is due to the slowdown recorded in the agriculture and services sector. In terms of contribution to GDP, the non-oil sector contributed 92.5% in Q3 '21.

Over the past eight quarters, agriculture has averaged a growth rate of 2.0% y/y. In Q3 '21, the sector grew by 1.2% y/y compared with 1.3% y/y recorded in Q2. Crop production was the primary driver of the sector and accounted for 87% of agriculture GDP. The segment grew by 1.4% y/y. We also note that the livestock and forestry segments grew by 0.1% y/y and 1.9% y/y, respectively while fisheries contracted by -3.9% y/y. Overall, the agriculture sector contributed 29.9% to real GDP in Q3 '21. The sector's underperformance can be partly hinged upon insecurity in specific farming areas, storage, and logistics challenges, among others.

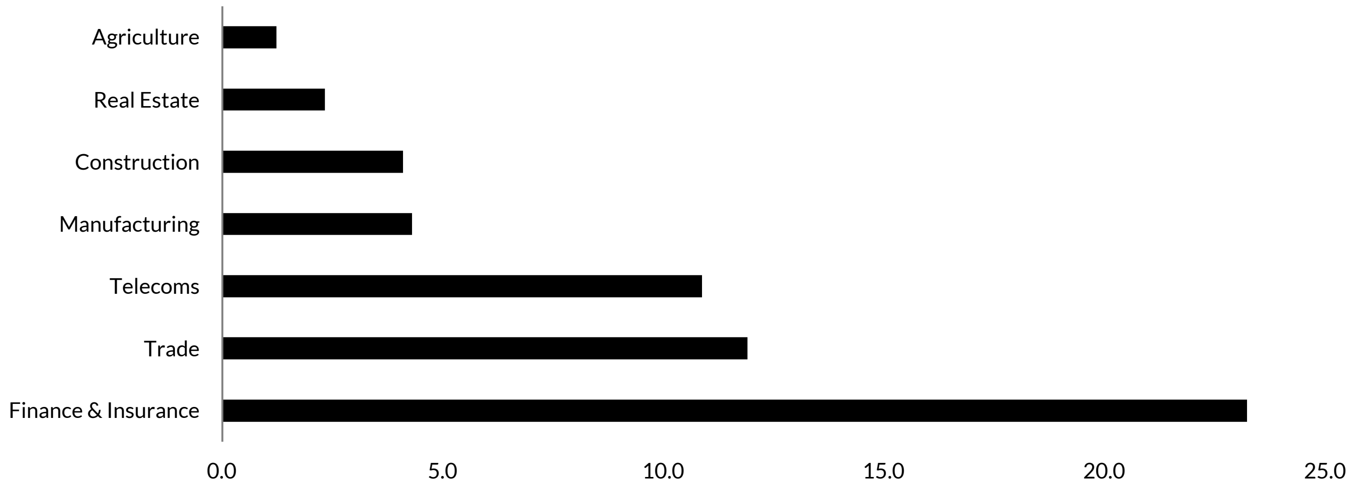
Unlike agriculture, telecommunications recorded an average growth of 12.2% y/y over the past eight quarters. In Q3 '21, the sector posted a growth rate of 10.9% y/y compared with 5.9% y/y posted in the previous quarter. This double-digit growth rate is not surprising given that the sector enjoyed similar growth levels in 2020. In addition, we note that the ongoing remote working approach triggered by the pandemic and entertainment via streaming services have supported growth in this sector.

Over the past eight quarters, the real estate sector averaged a growth rate of -4.1% y/y, while the construction sector averaged a growth rate of -1.9% y/y. However, in Q3 '21, the real estate and construction sectors grew by 2.3% y/y and 4.1% y/y, respectively. The growth registered for both sectors could be attributed to development activities due to the recommencement of delayed projects that were paused due to the slowdown triggered by the pandemic.

In the manufacturing sector, the average growth rate over the past eight quarters is 0.1% y/y. The sector posted a growth rate of 4.3% y/y in Q3 '21 compared with 3.5% y/y recorded in Q2 '21. The food and beverages segment grew by 6.1% y/y (accounting for 50% of total manufacturing GDP), the cement segment grew by 5.7% y/y, while the textile, apparel and footwear segment grew by 1.0% y/y in Q3. Over the past few months, consumption patterns have improved compared with Q3 '20, and fx liquidity, which directly impacts imported manufacturing input, has been relatively stable.

The finance and insurance sector posted the highest growth rate of 23.2% y/y in Q3 '21 compared with a contraction of -2.5% y/y recorded in Q2 '21. This reflects the strong performance of tier 1 banks, as seen in their respective Q3 '21 earnings report.

Green shoots in the non-oil sector, Q3 '21 (% change; y/y)



Sources: NBS, Coronation Merchant Bank Economic Research

Meanwhile, the transportation and storage sector also posted a growth rate of 20.6% y/y compared with a stellar growth of 76.8% y/y recorded in Q2 '21. The growth in Q3 is largely due to improvements in air and rail passenger traffic as economies lifted lockdown measures. The trade sector also grew by 11.9% y/y in Q3, compared with 22.5% y/y growth recorded in Q2 '21. We suspect that the release of pent-up demand may have supported trade activities, particularly for consumers within the middle-income class.

Oil GDP

The oil sector is yet to fully recover from the recession of 2020. Over the past eight quarters, the oil economy has contracted by an average of -6.8% y/y. This is primarily due to underinvestment in the sector leading to infrastructure decay. The sector has also suffered domestic production challenges such as sabotage of oil facilities, community interferences, and COVID-19 outbreak at some terminals, leading to terminal closures in 2021. Furthermore, we understand that it has been challenging to get some of the oil wells closed during the lockdown in 2020 back to normal operations due to the complexities involved in operating the facilities. As a result, Nigeria has not fully benefited from the current uptick in global oil prices.

The Organisation of Petroleum Exporting Countries (OPEC) has raised Nigeria's production quota to 1.72mbpd from 1.67mbpd (excluding condensates). According to OPEC, the country produced an average of 1.3mbpd (excluding condensates) in 2021. As a result of this and the lack of investments in the sector, the oil economy contracted by -10.7% y/y in Q3 '21 compared with -12.7% y/y recorded in the previous quarter.

Grains of hope for agriculture

Agriculture continues to garner attention as a favoured route to economic diversification. Furthermore, the pandemic has reinforced the FGN's commitment to growing the sector. The agriculture value chain is broad and provides an opportunity to increase job creation and promote entrepreneurship. Encouragingly, the average age of farmers has declined, according to some sources, to 30-40 years from 50-75 years, which was the norm over the past 40 years. Based on industry sources, in Nigeria, c.80% of farmers are smallholder farmers (SHFs), and they account for c.90% of Nigeria's agricultural output.

The sector accounts for c.30% of total GDP. The latest national accounts show that it grew by 2.2% y/y in 2020 and 1.2% y/y in Q3 '21. Over the past eight quarters, agriculture grew by 2.0%. Crop production accounts for about 93% of agriculture GDP. The sector is broadly divided into four segments in Nigeria: crop production, fishing, livestock, and forestry. As at Q3 '21, crop production accounts for 92.5% of total agricultural output, followed by livestock, fishing and forestry at 5.4%, 1.3%, and 0.8%, respectively.

Regarding trade with other African countries, agricultural exports are relatively low. As at Q3 '21, agricultural imports from Africa accounted for 5.8% of total imports. Only 1.8% of agricultural goods were exported to other African countries in the same period. However, the Africa Continental Free Trade Area (AfCFTA) agreement could support Africa's agribusiness, create new regional markets for farmers, strengthen the agro-value chains and significantly reduce agricultural imports from outside the continent.

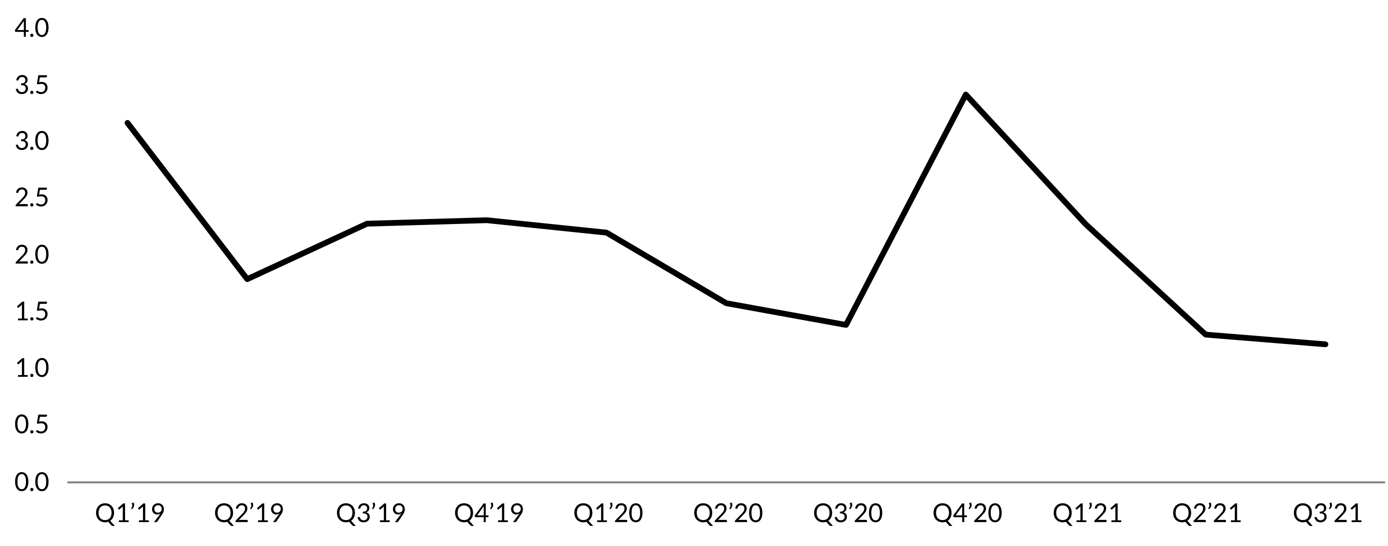
The FGN has taken some forward steps with import substitution. For example, the Anchor Borrowers' Programme (ABP), an initiative intended to create economic linkages between SHFs and reputable companies (anchors) involved in producing and processing essential agricultural commodities, has recorded some successes. The core of the programme is to provide loans to SHFs to boost agricultural production, create jobs, and reduce food/agricultural import bills. We understand that under the ABP, the CBN disbursed N841.3bn to 3.9 million SHFs cultivating 4.9 million hectares of land across the country. For the 2021 wet season farming, N161.2bn has been released to 770,000 SHFs ,producing seven commodities on 1.1 million hectares across the country, and N43.2bn has been disbursed to support the cultivation of over 250,000 hectares of maize, sorghum, soya beans and rice for 2021 dry season. In addition, the CBN's strategic maize reserve programme has assisted with moderating the price of maize by directly targeting large feed mill producers.

Also worth highlighting is the Agri-business Small and Medium Enterprise Investment Scheme (AgSMEIS). This is a voluntary initiative of the bankers' committee that supports the FGN's efforts and policy measures to promote agricultural businesses and Small and Medium Enterprises (SMEs) as vehicles for sustainable economic development. Under the scheme, the CBN has disbursed N134.6bn to 37,571 entrepreneurs.

Furthermore, in collaboration with the Federal Ministry of Agriculture and Water Resources (FMA&WR), the CBN established the Commercial Agriculture Credit Scheme (CACS) in 2009 to finance the country's agricultural value chain. We understand that between September to October '21, N5.9bn was disbursed to finance six large-scale agricultural projects under this scheme. Cumulatively, the CBN has disbursed N864bn to 4.1 million farmers under CACS. In addition, the CBN has also disbursed the sum of N41.2bn for the commencement of the brown revolution, a large-scale wheat program that is projected to reduce Nigeria's dependency on wheat imports by at least 35% in the first year (i.e. 2022).

The CBN released new guidelines for participants and operating institutions under its Agricultural Credit Guarantee Scheme Fund in November '21. The purpose of the fund is to provide a guarantee regarding loans granted by lending banks for agricultural purposes under the scheme to increase the level of bank credit to the agricultural sector. Other interventions in Nigeria's agriculture sector include Commercial Agriculture Credit Scheme (CACS), Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL), Agriculture Promotion Policy (APP), Nigeria–Africa Trade and Investment Promotion Programme, among others.

Agriculture growth rate y/y (%)



Sources: NBS, Coronation Merchant Bank Economic Research

There has been progress in some select agricultural segments such as rice, fertiliser, fish and livestock. Nigeria is the largest producer of rice in Africa;. it features as a staple food across households within the country and has become a food security crop due to its increased significance. According to the USDA, milled rice production in Nigeria has declined by 3%, from 5.0 million metric tonnes (MMT) in 2019 to 4.9MMT in 2020. Furthermore, the area harvested for rice expanded from 3.5 million harvested hectares in 2019 to 3.6 million harvested hectares in 2020. On the back of the ABP, an improvement from 4 metric tonnes (MT) to 10MT per hectare was recorded in 2021.

According to the Nigeria Sovereign Investment Authority (NSIA), the number of functional fertiliser blending plants in Nigeria has risen to 47 from 24 recorded in 2019. Additionally, in June '21, Dangote Industries Limited began the sale of Dangote urea fertilisers; with an estimated demand of 1MT and a production capacity at 3MT, local demand can be met, with room for export.

Nigeria's total annual fish demand is estimated at 3.4MMT, and c.40% of this demand is met domestically. We note that c.N125bn (USD30.1m) is spent annually on fish importation. According to the NBS, the fishing segment grew by 0.4% in Q3 '21 compared with 0.4% recorded in the corresponding period in 2020.

As for livestock, Nigeria's animal feed sector remains underdeveloped, largely due to high production costs. To put this in perspective, c.70% of the operational costs for poultry and aquaculture businesses are channelled towards securing feedstock.

According to the Food and Agriculture Organisation, Nigeria's population is estimated to reach 400 million by 2050. Therefore, enhanced agricultural productivity through adopting new technologies, favourable policies, and financial support is necessary to ensure food security and diversify the country's revenue source. Nigeria requires sustainable public-private partnerships that can potentially transform the agriculture sector. This would support strengthening agriculture as an economic backbone, job generator and a tool to ease pressure on the unemployment rate, and diversify the country's fx revenue source which by extension will boost overall GDP growth.

Power, still in need of a leg-up

Power shortages in Nigeria significantly impede growth and development. The FGN estimates national energy demand at c.28,000 megawatts (MW). Therefore, improving power sector performance, particularly in manufacturing and services, will be central to unlocking economic growth post-COVID-19.

For businesses located in Nigeria, self-generation places pressure on operating expenses. Household wallets are also significantly affected by the same expense. In addition, the absence of constant power supply has contributed to the slowdown of the much-needed industrial take-off the country requires. Based on industry sources, 99% of Nigerians connected to the grid rely on expensive fuel or diesel backup generators to complement the epileptic electricity supply from the national power grid.

The Transmission Company of Nigeria (TCN) disclosed that the power sector recorded a national peak generation of 5,801.6MW on 23 December '21, compared with 5,802MW recorded on 01 March '21.

Several African countries suffer from insufficient electricity generation capacity as well as inadequate, poorly maintained transmission and distribution networks that significantly affect their socio-economic activities. Based on data from the International Energy Agency (IEA), in 2019, 81% of the African population in urban areas had access to electricity in urban areas while only 37% had access to electricity in rural areas.

As for Nigeria, based on the latest Tracking SDG7 report, about 89 million Nigerians (45% of the population) have no access to electricity. The World Bank estimates that Nigeria suffers an annual economic loss due to unreliable power supply at between 5-7% of the country's GDP.

The power sector suffers from poor liquidity across its value chain. This is partly linked to a history of non-reflective cost tariffs before a revision in December '20 (subsequently deferred for January by the FGN) and consumers' apathy to payment because of estimated billing and poor power supply. Distribution companies (DISCOs) struggle to collect revenue from consumers, which affects their payments to GENCOs. In 2020, electricity demand from commercial consumers weakened due to social distancing rules that increased work-from-home activities. At the same time, we note that demand for residential consumption increased.

Metering remains a challenge within the country's power industry. To solve this issue, the FGN plans to provide up to 4 million meters to Nigerians in the second phase of its National Mass Metering Programme (NMMP). The first phase of the initiative has led to the distribution of about 750,000 meters nationwide within eight months. This is an improvement with regards to installation speed, given that the preceding Meter Asset Provider (MAP) programme recorded 350,000-meter installations in over 18 months.

According to the Nigerian Bulk Electricity Trading Company (NBET), the electricity distribution companies (DISCOs) remitted revenues totalling N91.3bn to the NBET in Q2 '21. This is a 22.6% decline from the N111.8bn recorded in the previous quarter. The decline in

revenues from the 11 DISCOs can be partly attributed to the poor power supply in Q2 ‘21.
The decline in revenue can also be attributed to the high technical and commercial losses that have been exacerbated by energy theft and consumers’ apathy to payments under the prevailing practice of estimated billing.

Gas-fired power has accounted for more than 70% of Nigeria's power output. The heavy reliance on gas-fired power results in exposure to power shortages due to issues with gas supply and the combined effects of security risks in the Niger Delta. The Presidential Power Initiative project with Siemens could improve the electricity grid and existing power capacity. Furthermore, the Petroleum Industry Act is expected to encourage increased investments into the gas sector.

Some forward steps within the power industry have been recorded. In August ’21, NERC directed DISCOs to commence the Service-Based Tariff (SBT) collection from September ‘21. The SBT came into effect in 2020, increasing the cost of electricity by over 50% as an attempt by the FGN to address the electricity sector's subsidy regime and enable the Nigerian Electricity Supply Industry (NESI) to generate enough funds to finance the power sector.

The Niger Delta Power Holding Company (NDPHC) signed a power purchase agreement (PPA) with the Kano state government to supply 20MW of electricity to enhance the operations of the Kano state water board. On the back of this agreement, water treatment plants in Kano are expected to receive an uninterrupted power supply. We understand that there are five water treatment plants in the first phase of this project.

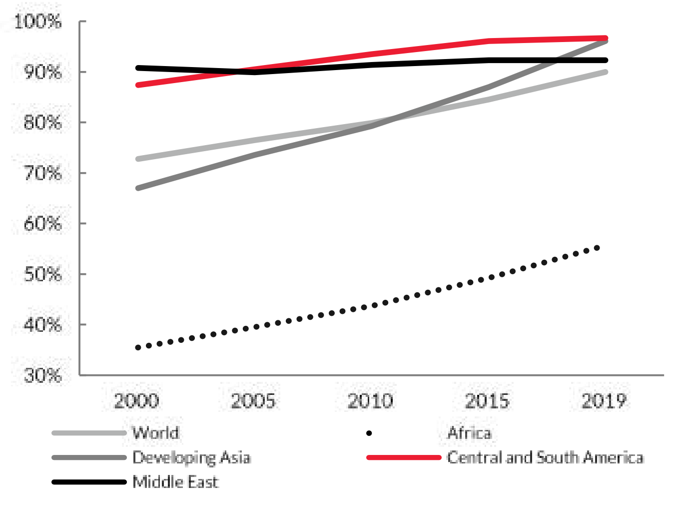
There are vast opportunities for off-grid alternatives. In April ‘21, the FGN began implementing its plan to deliver electricity through solar energy to about 25 million Nigerians whose communities are off the national power grid through the Solar Power Naija programme. The initiative aims to create five million connections through a N140bn financing programme. The FGN targets 30% of national energy from renewables by 2030.

Furthermore, the European Union granted an additional EUR15m (USD17.4m) to fund the second phase of Nigeria’s renewable energy and energy efficiency sector under the Nigerian Energy Support Programme (NESP). Additionally, the Agence Française de Développement (AFD) recently invested c.USD70m to fund renewable energy and efficient energy projects across the country to bridge Nigeria’s power needs and reduce environmental pollution. The AFD fund could guarantee electricity supply to c.80 million Nigerians affected by power shortages.

The lack of reliable power supply has stifled economic activity, private investments, and job creation, and if Nigeria is to achieve sustainable double-digit GDP growth, reliable power supply is required. Forward steps should be taken to modernise power infrastructure (with particular emphasis on transmission), reduce the Aggregate, Technical, Commercial and Collection (ATC&C) losses, and also increase transparency and enhance regulatory oversight.

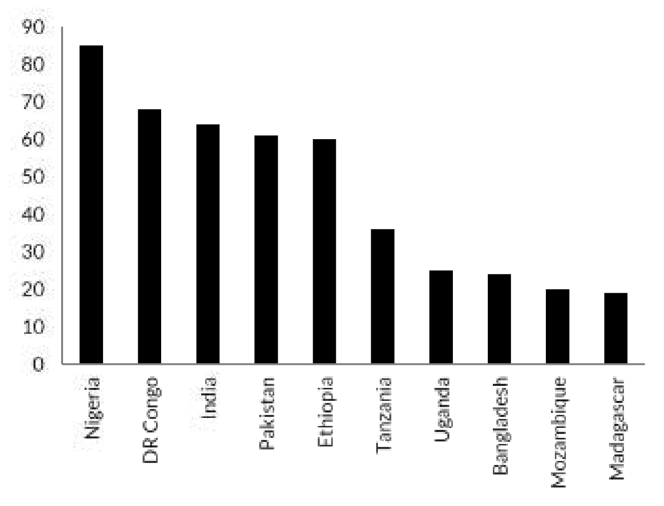
Increased investments targeted towards boosting renewable energy generation would also assist with increasing productivity in sectors like agriculture and manufacturing. Through the PIA, Nigeria is positioned to take significant steps to enhance the sector’s attractiveness for foreign investments.

Proportion of the population with access to electricity by region



Sources: IEA, World Energy Outlook-2020, Coronation Merchant Bank Economic Research

Pop. without electricity access in selected countries (2019; million)



Sources: Tracking SDG7, 2020; Coronation Merchant Bank Economic Research

The chief beneficiary of the virus

Industry sources suggest that a 10% increase in broadband penetration can increase the GDP of an economy by 1.6–1.8%. The latest data released by the Nigerian Communications Commission (NCC), the industry regulator, show that active telephone subscribers stood at c.195 million in December '21. This shows a m/m increase of c.2 million subscribers. Internet subscriptions stood at 141 million in December '21. This represents a y/y decline of -8%. However, we noticed a m/m increase of c.1.5 million in subscriptions.

The y/y decline can be partly attributed to the FGN's subscriber identification Module (SIM) card regulation, which requires each SIM card to be linked to a National Identification Number (NIN). Based on our channel checks, the stress associated with the NIN-SIM linkage has resulted in customers abandoning SIMs of devices that are not their primary source for communication or internet connectivity. Furthermore, there has been a visible shift to fibre broadband internet subscription plans that do not require SIM cards to function over the past year. Residential estates are increasingly tilting towards this option given the heavy reliance on internet services at home due to the ongoing work-from-home approach.

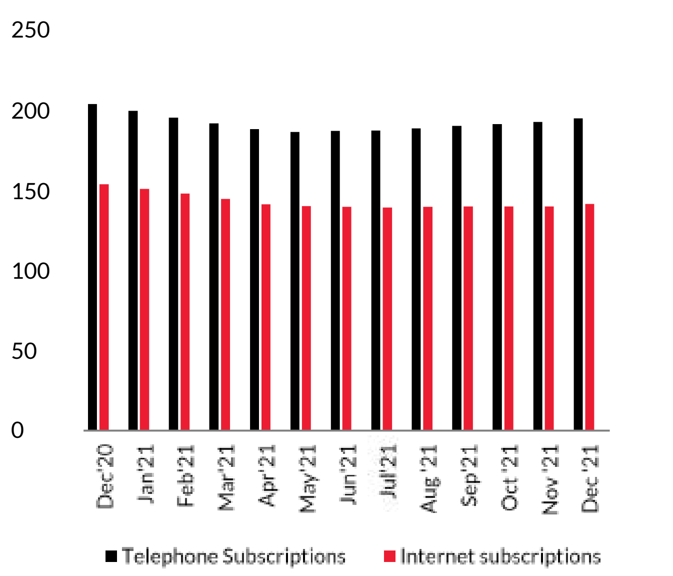
MTN Nigeria (MTNN) accounted for the largest share (37.7%) of total telephone service subscriptions among the mobile network operators. However, we noticed from the commission's data that in 2021, MTNN recorded a -8.9% y/y decline in telephone service subscriptions. Airtel and 9mobile recorded y/y decreases of -3.1% and -1.5%, respectively, and Glo recorded a y/y decrease of -0.04%. Furthermore, the commission's data show that in December '21, outgoing porting activities were highest for 9mobile while MTNN was the chief recipient of incoming porting activities.

The latest earnings release by MTNN shows that revenue grew by 20.9% in Q4 '21 and 22.9% y/y for FY2021. The solid sales growth was largely driven by growth in digital services (61.2% y/y), fintech services (57.3% y/y), data services (55.3% y/y), other service revenue (37.6%y/y) and voice services (8.4% y/y).

Broadband penetration currently stands at 41%. The national broadband plan seeks to deliver data download speeds across Nigeria at a minimum of 25Mbps in urban areas and 10Mbps in rural areas with adequate coverage available to at least 90 per cent of the population by 2025 at a maximum price of N390 per 1GB of data. These targets seem ambitious. However, they can be achieved with well-targeted investments into the sector.

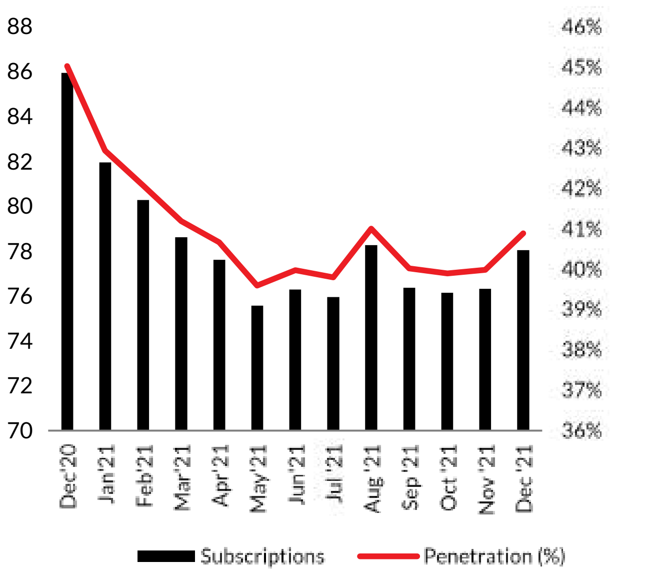
Many states continue to charge relatively high right-of-way RoW fees. Industry sources suggest that, in Lagos, it costs telecom companies as high as N1,500 per linear metre of fibre in RoW charges. The absence of a unified RoW fee across the country continuously stalls the advancement of broadband fibre networks. In March '21, Anambra state waived RoW fees for telecom operators as part of the state's efforts to drive broadband expansion. The harmonisation of right-of-way (RoW) charges across states, and local government areas would assist with boosting broadband penetration. The FGN proposed an RoW fee of N145 per linear meter of fibre.

Telephone users and internet access (millions)



Source: NCC, Coronation Merchant Bank Economic Research

Broadband subscription (millions) /Penetration data



Source: NCC, Coronation Merchant Bank Economic Research

In Nigeria, mobile network operators roll out most fibre cables across the country, with MTN, Airtel and Glo laying 64% (34,436km) of the total fibre distance (54,000km) currently covered. Peer countries like Kenya charge no RoW fees to its operators. Kenya has been able to achieve a broadband penetration of 85%. The reduction in RoW charges will largely incentivise the expansion of fibre networks by telecom operators in Nigeria.

We note that the CBN has approved Payment Service Banks (PSBs) such as MTNN (MOMO PSB) and Airtel AFRICA (SMARTCASH PSB), 9Mobile (9PSB) and Globacom (Money Master). PSBs are a hybrid of conventional banks and fintech companies introduced by the CBN to provide banking solutions and enhance financial inclusion in rural areas. Recently, the FGN launched the national policy for the fifth generation (5G) network to boost the country's digital economy.

The NCC conducted the 3.5GHz spectrum auction in December '21. MTN Nigeria and Mafab Communication Limited won the two slots available. The sale of these slots of 3.5GHz spectrum is expected to facilitate 5G rollouts across the country. The FGN received USD547.2m on the back of the auction. The commission disclosed that the remaining three slots will be auctioned over two years. Industry sources suggest that the successful 5G rollout will boost internet data speed at ultra-low latency and more reliable and increased network capacity.

Turning to data from the NBS, capital importation into the telecommunications sector declined by -49.8% y/y to USD50.8m in Q3 '21. This significant decline in investments into the sector can be linked to general investor apathy given the hazy macroeconomic environment triggered by the pandemic as well as the infrastructure deficit in the telecommunications sector, high cost of services, low digital literacy, among others.

The telecommunications segment was already proliferating and has been further boosted by the prevalence of remote work due to the COVID-19 pandemic. According to the latest national accounts, telecommunications posted double-digit growth of 10.9% y/y in Q3 2021. Furthermore, the latest inflation report shows that communications prices rose by 10.5% y/y in December '21 compared with 10.6% y/y recorded in the previous month.

The mandatory push into the virtual landscape due to the ongoing pandemic has further exposed the infrastructure gaps within the country's technology sector. For Nigeria to become an active member of the current digital transformation within the global village, considerable investments in telecommunications infrastructure are required. A deepened broadband penetration feeds directly into better internet access, and the ripple effect of the latter on the economy attracts immeasurable benefits.

Improved prospects for the oil sector

In 2021, global crude oil demand remained relatively firm despite the surge in COVID-19 infections as new variants were discovered and restrictions and lockdowns returned to some countries across the globe. Supply constraints were mainly due to hurricanes Ida and Nicholas passing through the Gulf of Mexico, damaging US oil infrastructure and OPEC+ adding only 400,000bpd a month since April '21. Oil price (UK Brent) closed the year at USD77.8/b from USD51.8/b recorded in January '21. Bonny light increased by 50.5% from USD50.7/b in January '21 to close at USD79.3/b in end-December '21

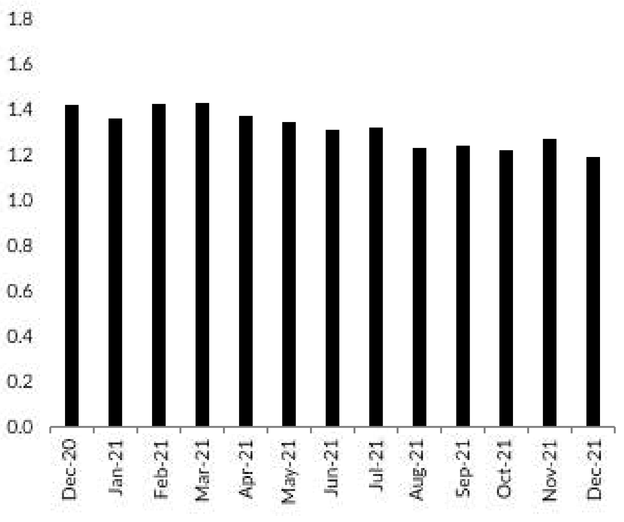
The FGN continues to seek different ways to diversify the economy, particularly sources of government revenue and foreign exchange receipts. Despite being a major source of revenue, the crude oil and gas sector lags behind other sectors in terms of GDP contribution (7.5% of total real GDP in Q3 '21). The sector has struggled to recover from the recession recorded in 2020, averaging a -10.7% y/y growth rate since Q2 '20. According to data from OPEC, the country produced an average of 1.3mbd (excluding condensates) for most of 2021. This is below the OPEC quota (1.67mbp) and the FGN's budget assumptions for 2021 (1.8mbpd).

The reason is mainly due to underinvestment in the sector, leading to a huge infrastructure deficit and production challenges ranging from insecurity to power failure on several terminals, pipeline downtime due to vandalism and prolonged repairs, as well as COVID-19 outbreaks. Recently, Total Energies EP Nigeria declared a force majeure stemming from the vandalisation of its northern option pipeline located at the KP41 Alaoma Etche cluster. However, refining capacity in Nigeria is expected to improve as the Port Harcourt refinery undergoes rehabilitation and operations at the Dangote Refinery in Lagos commences. This is in addition to implementing the Petroleum Industry Act (PIA).

Bonny Light (USD/b)

Source: CBN, Coronation Merchant Bank Economic Research

Oil production, mbpd



Source: CBN, Coronation Merchant Bank Economic Research

The major changes/initiatives through which the objectives of the act could be achieved include:

- The Incorporation of the Nigerian National Petroleum Company Limited with ownership of all shares in NNPC Limited vested in the FGN and held by the Ministry of Finance Incorporated and the Ministry of Petroleum Incorporated in equal portions on behalf of the Federation.

- The establishment of the Nigerian Upstream Petroleum Regulatory Commission to regulate upstream petroleum operations, including technical, operational and commercial activities and to ensure compliance with all applicable laws and Regulations governing upstream petroleum operations.

- Establishment of the Nigerian Midstream and Downstream Petroleum Regulatory Authority to regulate midstream and downstream petroleum operations, including technical, operational, and commercial activities and ensure efficient, safe, effective and sustainable infrastructural development of midstream and downstream petroleum operations

- With regards to the host communities, the act mandates that Settlors (a holder of an interest in a petroleum prospecting licence or petroleum mining lease or a holder of an interest in a licence for midstream petroleum operations, whose area of operations is located in or appurtenant to any community or communities) incorporate a host community development trust. To this trust, the settlor shall make an annual contribution to the applicable host community development trust fund of an amount equal to 3% of its actual annual operating expenses of the preceding financial year.

Overall, the PIA seeks to provide the legal, regulatory, governance and fiscal framework for Nigeria's petroleum industry with positive implications for public finances and host communities and create investment opportunities for domestic and international investors in the oil and gas industry. However, considering the projected decline in global demand for fossil fuels and the rise of clean energy investments, there are questions about how much investment Nigeria can attract into the oil and gas sector amidst the global energy transition.

For example, British Petroleum (BP) has announced that it will be suspending oil and gas exploration in new countries from 2021. It also aims to make a tenfold increase in its low-carbon energy spending. In the case of Shell, based on its new strategy launched in 2021, the company aims to decrease its total oil production by 1-2% per annum and make no new frontier exploration investment by 2025. Hence, the company announced a complete divestment of Joint venture (JV) interests, preferring to retain only offshore assets. The company plans to sell its 30% equity in NNPC-SPDC JV assets.

To boost domestic production, the FGN also announced 57 marginal field offers in June 2020. According to the now-defunct Department of Petroleum Resources (DPR), 591 firms submitted their expression of interest forms, out of which 540 were pre-qualified; 405 applicants submitted 482 bids, out of which 161 companies were shortlisted as potential awardees. We understand that 50% met all conditions and were therefore eligible for the awards of the marginal oil fields. By May '21, the successful bidders were named in the USD500m (or N235bn) transaction.

Wheels up but still waiting for take-off

In 2020, the aviation industry experienced a severe hit due to soft demand triggered by travel restrictions and the global economic crisis on the back of the COVID-19 virus. According to the International Air Transport Association (IATA), demand for international air travel in 2020 declined by 75.6% compared to demand levels recorded in 2019. Domestic demand also declined by 48.8% y/y in 2020.

To fully comprehend the effects of COVID-19 on the global economy, we highlight critical segments such as passengers, cargo, and airline safety. Travel restrictions and lockdowns imposed by various countries kept air passenger traffic low. However, with domestic and regional markets' reopening, a gradual recovery in passenger traffic has been recorded. Notably, upticks in domestic travel within countries can be partly attributed to control measures on COVID-19 and the vaccine rollout across economies.

Turning to Nigeria, based on the latest national accounts, air transport accounted for less than 1% of the total GDP. The segment grew by 33.3% y/y in Q3 '21. The reopening of airports and the reinstatement of flights, following the ease in movement restrictions and positive base effects, contributed to the uptick in the segment's growth rate.

According to data from the IATA, the airline industry, and industries attached to its value chain, generate at least 241,000 jobs in Nigeria. Regarding tourism activities, the top five international tourist arrivals (including other modes of transport) by country of residence are Niger, the United States and the United Kingdom.

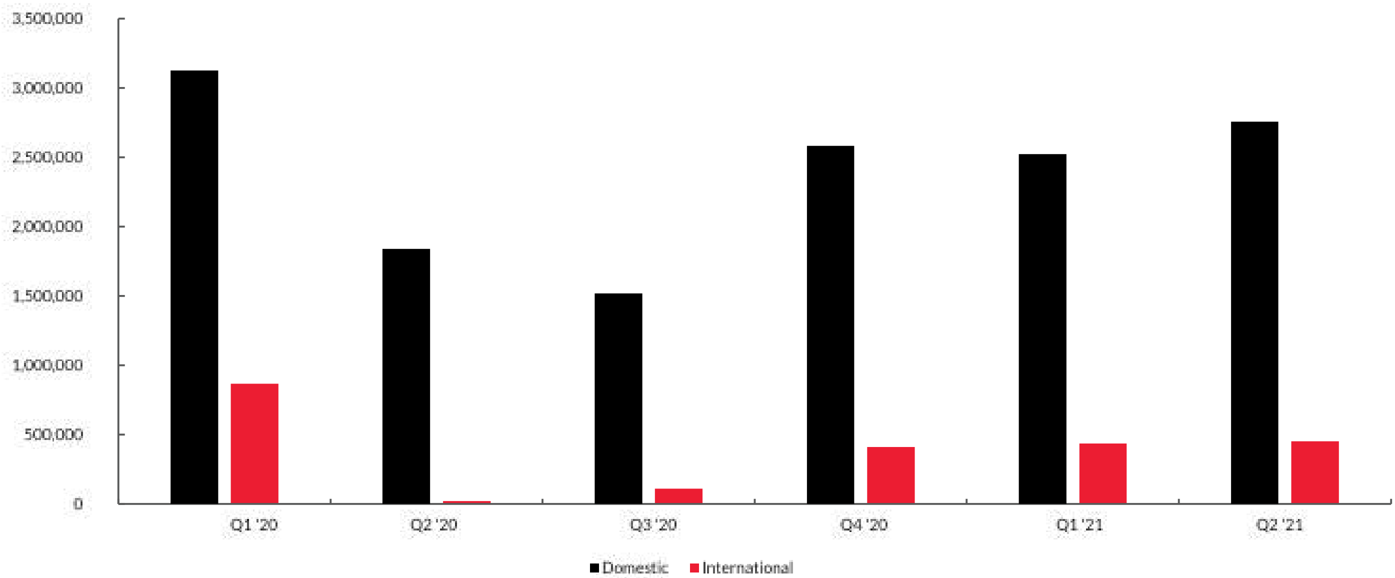
The latest report on air passenger traffic released by the NBS estimates total traffic in Q2 '21 at 3.2 million passengers, representing an increase of 9% q/q and 72% y/y. However, despite this impressive year-on-year increase, the aviation sector is still recovering from the effects of the COVID-19 pandemic as overall passenger traffic is still below pre-pandemic levels. According to the report, 86% of total air passengers in Q2 '21 were domestic travellers, pointing to a 9% q/q increase. For Q2 '21, passenger traffic on departures accounted for 50% of total domestic air travel and 51% of total international air travel.

Passenger traffic in the Lagos domestic airport increased by 13% q/q to 861,320 passengers. As for Abuja, there was a 9% q/q increase to 1 million passengers in Q2 '21. The Abuja airport accounted for the largest share (37%) of total domestic passengers during the quarter under review,while Lagos and Port Harcourt accounted for 31% and 7% of total passenger traffic (domestic), respectively.

In November '21, the Federal Executive Council (FEC) approved April '22 as the commencement date for the operations of the country's national carrier, 'Nigeria Air'. We recall that operations of the proposed national carrier were initially halted due to financial and operational challenges. Following the commencement of 'Nigeria Air', c.70,000 jobs are expected to be generated.

On another note, the FGN closed the prequalification phase for the concession of Nigeria's four major airports in Q4 '21. The four major airports include the Murtala Muhammad International Airport, Lagos; Nnamdi Azikiwe International Airport, Abuja; Aminu Kano International Airport, Kano; and Port Harcourt International Airport.

Air passenger traffic (total arrivals and departures)



Sources: NBS, Coronation Merchant Bank Economic Research

As for international travel, the NBS data shows that air passenger traffic grew by 4% q/q and 2179% y/y in Q2 '21. We suspect the growth mirrors the lifting of international travel restrictions and the rollout of vaccines globally. According to IATA, global international air travel will continue to recover in 2022. However, low vaccination rates in Africa may remain one of the key obstacles to a quicker air travel rebound. In addition, there are still concerns around new COVID-19 variants and uncertainties regarding vaccine progression across specific countries. The resumption of operations of Nigeria Air should attract some economic benefits for airline transportation.

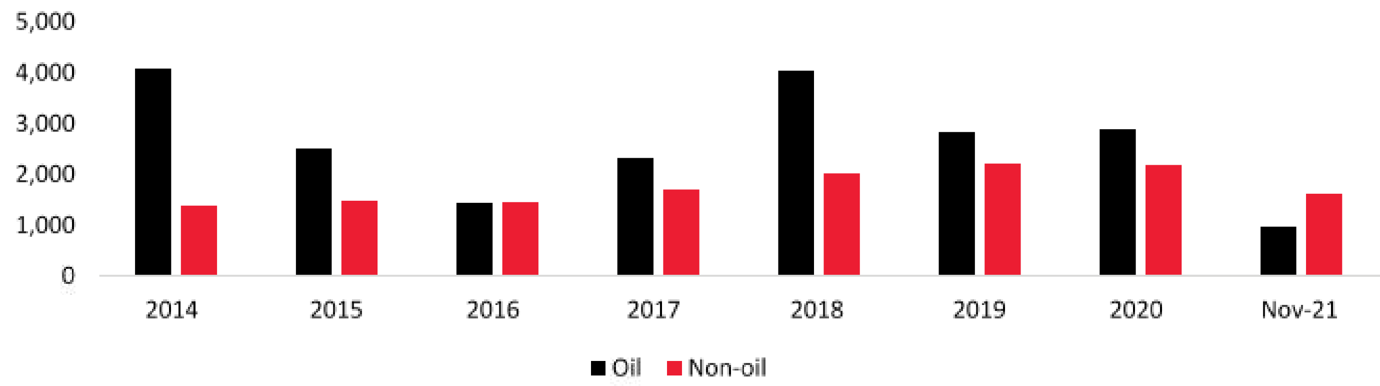
A glimpse into the fiscal landscape

The 2021 Budget titled Economic Recovery and Resilience focused on a post- COVID economic recovery and featured economic growth as the top priority. According to the budget office of the federation, the FGN aimed to earn N7.9trn (USD18.9bn) to fund the budget, which was initially pegged at N13.6trn (USD32.6bn). The benchmark oil price was USD40/b while the benchmark for oil production was pegged at 1.9mbpd, resulting in a projected budget deficit of N5.6trn (with recurrent (non-debt) spending estimated at N5.9trn (USD14bn) or 44.1% of total expenditure, while aggregate capital expenditure was estimated at N4.4trn or 32.2% of total expenditure).

In July '21, the National Assembly passed an additional N982.7bn supplementary budget and received a sign-off from President Buhari. The supplementary budget was geared towards procurement of equipment for the military and COVID-19 vaccines. This raised the total FGN budget amount for the year to N14.6trn (USD35bn). The overall deficit increased by N850bn to N6.5trn, with financing expected from both domestic and external sources. The FGN's estimated revenue to fund the 2021 budget also increased to N8.1trn (USD19.5bn), with gross oil revenue estimated at N2.2trn (USD4.8bn) and non-oil revenue estimated at N1.5trn (USD3.6bn) for the year. Other revenue items like FGN independent revenue, drawdowns from special accounts, signature bonuses, government-owned enterprises and grants were estimated at N4.4trn (USD10bn).

Based on data from the Budget Office of the Federation, as at November '21, the FGN's expenditure of N12.6trn was 5.9% lower than the prorated budget of N13.4trn, while the revenue of N5.5trn was 25.9% less than the prorated budget of N7.4trn. As a result, revenue from oil was N970.3bn compared with the prorated budget of N1.8trn for the period, non-oil revenue was N1.6trn compared with the prorated budget of N1.5trn, and other revenue items were N2.8trn compared with the prorated budget of N4.0trn.

FGN Revenue (N 'bn)



Source: Budget Office of the Federation, Coronation Merchant Bank Economic Research

The gross monthly distribution by the Federation Account Allocation Committee (FAAC) to the three tiers of government and public agencies amounted to N675.9bn in December (from November revenue). This shows an increase of 0.6% or N4bn from the previous payout. In addition, based on data in the local media, we learned that companies' income tax (CIT), petroleum profit tax (PPT), value-added tax (VAT), oil and gas royalties, import and excise duties recorded increases over the previous month.

The average monthly FAAC distribution was N682bn in 2021 and this has declined from an average of NGN710bn in 2018 and N685bn in 2019 but is slightly higher than the N636bn recorded in 2020. The Excess Crude Account (ECA) balance was USD35.4m in December '21.

Revenue allocations (gross) by FAAC (N 'bn)

Source: NBS, Local news media, Coronation Merchant Bank Economic Research

According to the NNPC, since January '21, a total of N1.2trn has been deducted from its contributions to the federation from its FAAC remittance for subsidy payments under the title "under-recovery of PMS/shortfall". The NNPC disclosed that it would deduct its November '21 shortfall of N270.8bn from its December '21 proceeds, bringing the total subsidy deductions from proceeds in 2021 to N1.5trn (USD3.6bn). This is to ensure continuous premium motor spirit (PMS) supply. In addition to the subsidy payments, the production challenges in the year led to revenue losses and contributed to straining the NNPC's FAAC contributions in 2021.

The subsidy regime was expected to be halted in 2022 in line with the implementation of the PIA. However, after opposition from organised labour unions, the FGN reversed itself and announced plans to delay the implementation of the PIA and retain payment of fuel subsidy for 18 months. According to the Minister of Finance, the 2022 budget contains a provision of N443bn for fuel subsidy for January '22 to June '22. However, the FGN decided to delay the removal after considering the current realities, such as heightened inflation and the absence of measures that would enable a smoother exit from the fuel subsidy. In January '22, it approved the sum of N3trn requested by the NNPC for fuel subsidy payment in 2022.

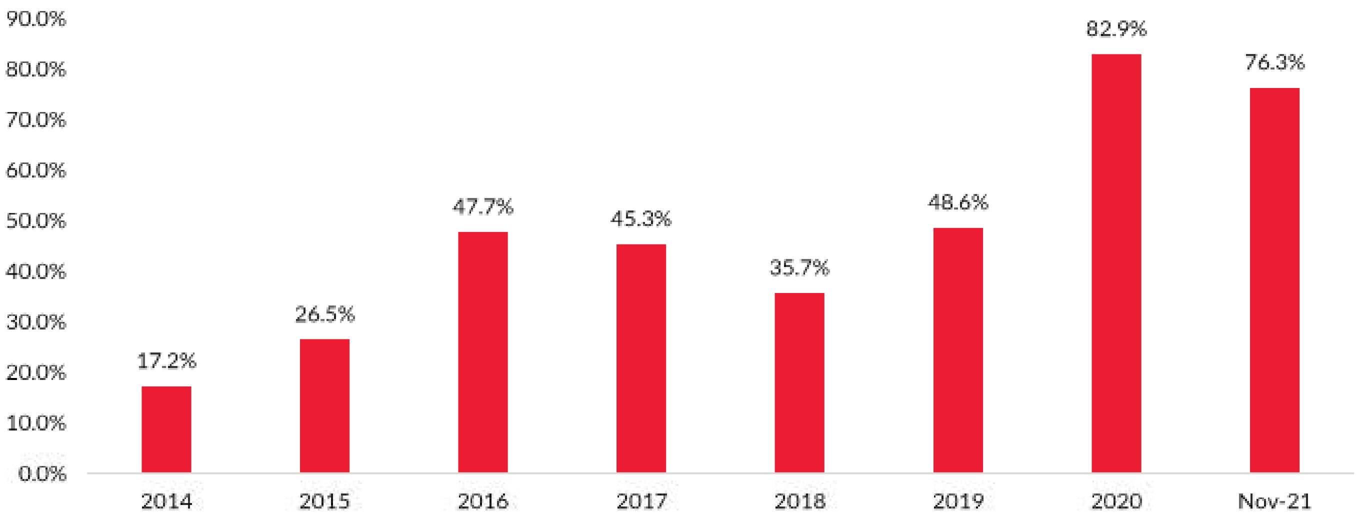
The FGN plans to submit a supplementary budget to the National Assembly, which would include the repeal of clauses 10 and 11 of the appropriation act. These concern the Economic and Financial Crimes Commission (EFCC) and the Nigerian Financial Intelligence Unit (NFIU) operations in the 2022 budget, as well as the incorporation of N103bn removed by the lawmakers from the initial budget estimates.

Public debt

According to Nigeria's Debt Management Office (DMO), total public debt rose by 7.2% q/q or N2.5trn from N35.5trn at end-June '21 to N38trn at end-September '21. Compared to the same period in 2020, the total public debt increased by 17.9% y/y or N5.8trn. As at end-September, the public debt is equivalent to 25% of the 2020 nominal GDP. This is relatively low when compared with other African economies such as Ghana (81%), Kenya (65%), South Africa (80%) and Egypt (90%), This is in line with the DMO's debt management targets for the period 2020-2023 which raised the ceiling for public debt to 40% of total GDP and targets a domestic to external debt ratio of max70: min30.

Total domestic debt was N22.4trn (59.0%) of total public debt. On a q/q basis, the FGN domestic debt increased by 3.1% from N17.6trn at end-Q2 to N18.2trn at end-Q3 '21. This was largely due to increased issuances of FGN bonds and Nigerian treasury bills (NTBs) over the three-months. In terms of composition, FGN bonds and NTBs make up 93% of total domestic debt, while FGN Sukuk, treasury bond, savings bond, green bond, and promissory notes make up the remaining 7%. However, the country's debt service-to-revenue ratio stood at 76% as at November '21, one of the highest among African countries. Nigeria spent N4.2trn (USD10bn) on debt servicing: N2.2trn (USD5.3bn) was spent on servicing domestic debts, N885bn (USD2.1bn) was spent on external debt servicing and N1.1trn (USD2.6bn) on interest on ways and means advances from the CBN.

Debt service to revenue (%)

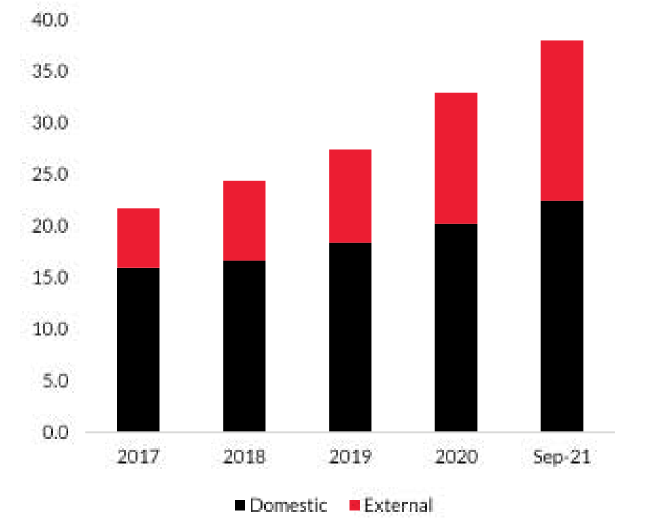


Source: Budget Office of the Federation, Coronation Merchant Bank Economic Research

External debt stock stood at USD37.9bn (N15.6trn). On a q/q basis, the external debt increased by 13.4% from USD33.5 (N13.7trn) at end-Q2. This was mainly due to the USD4bn Eurobond issued by the FGN in September '21 as part of the new external borrowing in the 2021 appropriation act.

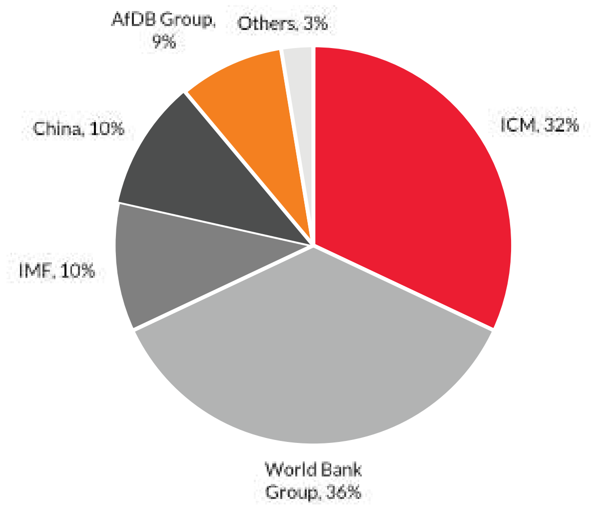
The current external debt stock accounts for 40.9% of total public debt, which exceeds the min.30% target set by the DMO. Multilateral and bilateral loans make up the bulk of the external debt at 59.7%. Meanwhile, commercial loans and promissory notes make up the remaining 40.2%. The FGN intends to enter the Eurobond market this year.

Public debt stock (N'trn)



Source: DMO, Coronation Merchant Bank Economic Research

External debt by lender group, at end-Q3 '21 (% share)



Source: DMO, Coronation Merchant Bank Economic Research

Under the Buhari administration, we see an increased reliance on the CBN to finance public spending through the ways and means advance, which is available to the FGN, to finance deficits in its budgetary operations to a maximum of 5.0% of the previous year's actual collected revenue. We note an outstanding Ways & Means balance of N13trn (USD31bn) as at November '21 and the FGN's plans to securitise this debt. It is expected to be liquidated as soon as possible and repaid at the end of the year in which it was granted.

The total public debt stock is expected to rise when the debts from the ways and means advances, AMCON and promissory notes are added.

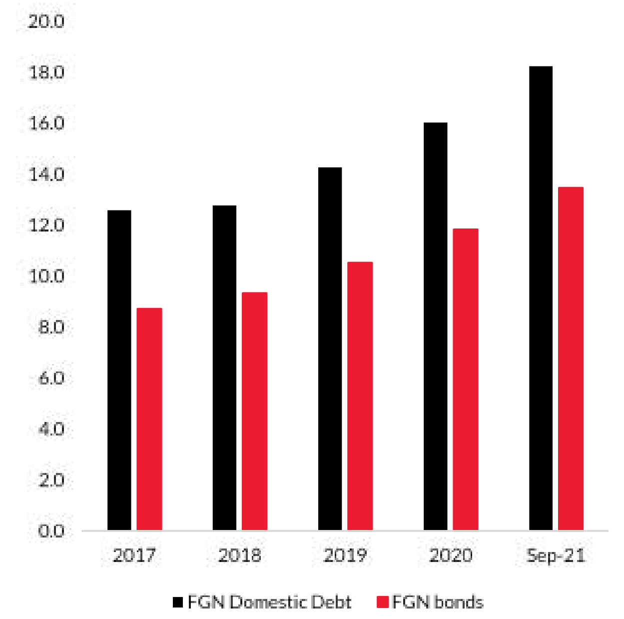
The FGN bond market

We note that the transmission effect of the monetary policy rate into the real economy is slow, given the modest degree of financial intermediation. In 2021, the average yield for FGN bonds increased by 526bps to close at 11.6%, while the average yield for NTBs increased by 354bps to close at 4.4%.

The main driver has been the FGN's 2021 budget deficit of N6.5trn and the DMO's remit to raise N2.7trn from the domestic market to fund the deficit. At the primary market auctions for FGN bonds in 2021, the DMO offered N1.8trn but allotted N2.3trn worth of instruments through re-openings. As a result, FGN bond sales accounted for about 45.8% of the FGN's domestic borrowings in 2021.

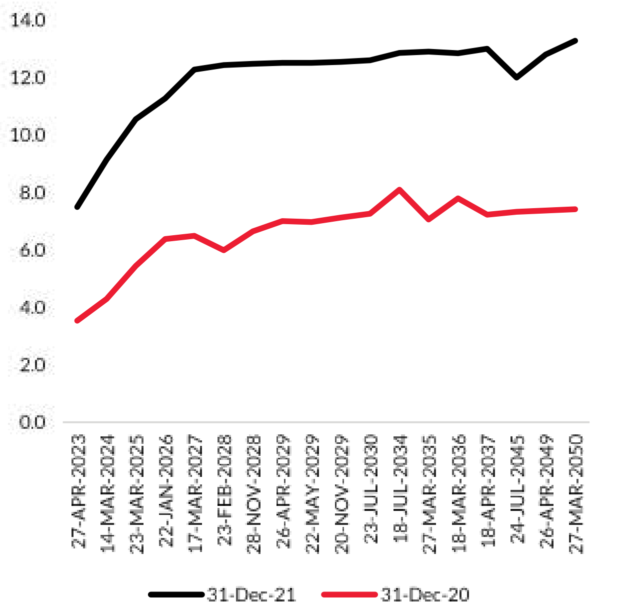
We recall that in 2019, a circular from the CBN stipulated that domestic non-bank players could no longer participate in the market for open market operations (OMO). This effectively forced non-bank players (e.g., pension funds and asset management companies) into conventional NTBs and FGN bonds.

Total FGN Domestic debt vs Total FGN bonds (N'trn)



Source: DMO, Coronation Merchant Bank Economic Research

FGN bonds yield curve (%, 31 Dec '20 vs 31 Dec '21)



Source: FMDQ, Coronation Merchant Bank Economic Research

According to the NBS, the total value of capital imported in Q3 '21 was estimated at USD1.7bn, representing a rise of 98% q/q and 18% y/y. The data are gross and not adjusted for capital exports. The category referred to as portfolio investment accounted for the largest share (70%) of total capital importation in Q3 '21. There was a q/q increase of 121% in Q3. Money market instruments accounted for 65% of total portfolio investments and increased by 76% q/q. Similar to Q1 and Q2, there were relatively lower contributions from bonds to portfolio investments in Q3. Bonds contributed 30% to total portfolio investments.

Pension Fund Administrators (PFAs) are principal players at the FGN bond auctions. As a result, the FGN bonds held by PFAs increased by 1.2% m/m and 12.1% y/y to N7.9trn in October '21. In the same period, their holdings amounted to 60.2% of their Assets Under Management (AUM), currently at N13.2trn (USD31.7bn).

During the period under review, trading in the sovereign Eurobond market was bearish, as the average yield increased by 155bps to close at 7.2%. In September '21, the FGN raised USD4bn through Eurobond to finance the 2021 national budget projects. According to the DMO, the order book peaked at USD12.2bn, enabling the FGN to raise more than the USD3bn it initially announced. The Eurobond was issued in three tranches: 7-year at 6.13%, 12-year at 7.38% and 30-year at 8.25%.

FGN bond yields are likely to rise in 2022 due to domestic borrowing by the FGN to finance the N6.4trn deficit in this year's national budget. The DMO has published its bond issuance calendar for Q1 '22, showing the total volume on offer between N420 and N480.0bn.

The 2022 FGN budget in focus

The 2022 FGN budget titled Economic Growth and Sustainability was signed by President Buhari on 31 December '21. The aggregate expenditure is estimated at N17.1trn, 18% higher than the 2021 FGN aggregate expenditure of N14.6trn. In addition, the aggregate amount allocated for capital expenditure in the 2022 budget is N5.96trn. This represents 35% of total expenditure (above the 30% target set by the current administration) and is 14% higher than the 2021 provision of N5.23trn. As a result, the budget has an estimated deficit of N6.39trn, approximately 4.1% of total GDP (in 2020) and is slightly above the 3% ceiling set by the Fiscal Responsibility Act 2007 (FRA).

The fiscal expenditure also comprises a statutory transfer of N869.7bn, debt service of N3.6trn, sinking fund of N270.7bn, recurrent (non-debt) expenditure of N6.9trn, and special interventions (recurrent) of N350.0bn. The assumptions for the 2022 national budget include an oil price benchmark of USD62/b, 1.9mbpd in oil production, an exchange rate of N410.15/USD, GDP growth rate of 4.2% y/y and an end-year inflation rate of 13% by end year-2022.

Furthermore, the budget deficit is expected to be financed by foreign borrowings of N2.6trn and domestic borrowings of N2.6trn, privatisation proceeds of N90.7bn, and multilateral/bi-lateral loans drawdowns of N1.2trn.

The aggregate revenue available to fund the 2022 national budget is projected at N10.7trn. The projected revenue is 32.3% higher than the previous year and comprises an estimated oil revenue of N3.4trn (31.3% of total revenue) and non-oil revenue of N7.3trn (68.7% of total revenue).

Turning to revenue mobilisation, the FGN plans to grow the revenue-to-GDP ratio from about 8% to 15% by 2025. In line with the 2022 national budget priorities, some critical policies in the Finance Act 2021 that could assist with achieving this include the imposition of N10/litre excise duty on non-alcoholic, carbonated and sweetened beverages, a 10% capital gains tax on shares disposal worth N100m and above in a calendar year, excluding the re-invested part. In addition, a 0.25% science and engineering levy on profit before tax is part of the FGN's plan and the technology reforms by the Federal Inland Revenue Service (FIRS) to enhance tax administration.

The FGN aims to further strengthen frameworks for concessions and public-private partnerships (PPP) and explore green finance opportunities, such as implementing the sovereign green bond programme and debt-for-climate swap mechanisms. In addition, the national budget is expected to target the financing of critical development projects and programmes which should improve the economic and business environment.

We note the dispute over the rights of states to collect and retain funds from VAT. The FGN, through the FIRS, has been collecting VAT on behalf of the state and local governments but southern states like Lagos and Rivers , have introduced legislation to enable state-level agencies to collect and manage VAT revenue rather than the FIRS. The current sharing formula assigns 15% to the federal government, 50% to state governments, and 35% to local governments.

Summary of FGN 2022 approved budget - Assumptions

Assumptions	2022 Budget	2021 Budget	Percentage Change (%)
Benchmark oil price (USD/b)	62.0	40.0	55.0
Oil production (mbpd)	1.88	1.86	1.1
Exchange rate (N/USD)	410.2	379.0	8.2
Target Inflation (%)	13.0	11.9	8.8
GDP growth rate (%)	4.2	3.0	40.0

Source: Budget Office of the Federation, Coronation Merchant Bank Economic Research

Summary of FGN 2022 approved budget - Highlights

Highlights (N' trn)	2022 Budget	2021 Budget	Percentage Change (%)
Aggregate revenue	**10.7**	**8.1**	**32.3**
Oil revenue	3.4	2.0	67.2
Non-oil revenue	7.3	6.1	20.8
Aggregate expenditure	***17.1***	***14.6***	**17.5**
Statutory transfers	0.9	0.5	75.1
Recurrent non-debt	6.9	5.8	19.0
Debt service	3.6	3.1	16.1
Sinking fund	0.3	0.2	35.4
Capital expenditure	5.9	5.2	13.9
Capex % of total expenditure (%)	34.8	35.9	-3.1
Projected budget deficit	**6.4**	**6.5**	**-0.9**

Source: Budget Office of the Federation, Coronation Merchant Bank Economic Research

The FGN and several northern states have opposed this move because the northern states are poorer and would see a decline in their VAT revenues. The legal dispute has reached the Supreme Court, and a ruling favouring the state governments could derail the FGN's N10trn projected revenue in the 2022 national budget. We note that the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) in 2021 commenced the review of the nation's revenue allocation formula. The FGN currently takes 52.7% of the total revenue accruing to the country.

Suboptimal subnational finances

Sub nationals continue to struggle with generating internal revenue. Therefore, resulting in overdependence on the Federation Account Allocation Committee (FAAC) monthly payout. However, a few states generate sizeable revenue internally, and this list is led by Lagos state. The latest distribution to the three tiers of government and public agencies amounted to N675.9bn in December (from November revenue). State governments received N210.0bn, including N49.0bn, representing the 13% derivation for the few oil-producing states.

The average monthly FAAC distribution (N682bn in 2021) declined from the average of N710bn recorded in 2018 and N685bn in 2019 but is slightly higher than the N636bn recorded in 2020.

In 2021, some state governments criticised the centralised VAT administration. These states sought court rulings to spearhead VAT collection in their respective states instead of the FGN collecting VAT on behalf of states and local governments. Lagos and Rivers states have enacted their own VAT laws in response to the original Federal High Court ruling granting Rivers and Lagos the right to collect VAT in their states. The controversy over VAT could have an indirect impact on FAAC allocation.

It is worth highlighting the deadlock during the FAAC meeting in October '21, which was due to states and local governments resisting the commencement of deductions from FAAC payouts concerning the USD418m judgement debt for consultancy services with regard to the Paris Club Loans refund. We understand that the consultants in the refund recovery claimed a percentage of the refund as payment for services rendered to the states and local government councils.

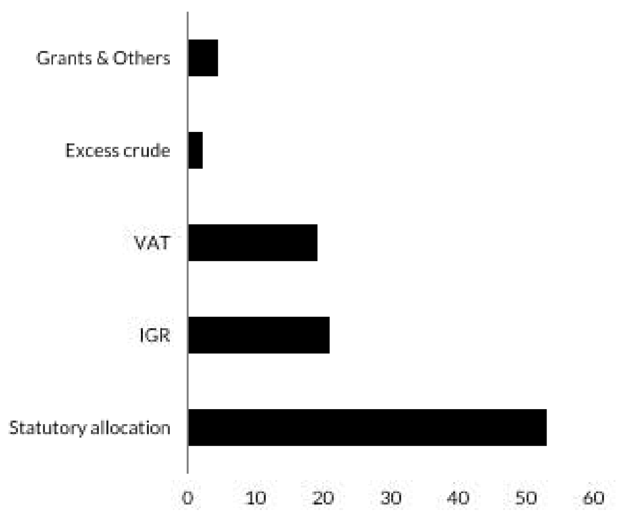
The latest data on internally generated revenue (IGR) released by the NBS show that total IGR in H1 '21 stood at N849.1bn compared with N612.9bn recorded in the corresponding period in 2020. Lagos recorded the highest IGR, amounting to N267.2bn. The FCT, Rivers, and Ogun state recorded IGR figures of N69.1bn, N57.3bn and N54.8bn, respectively while Yobe (N4.0bn), Taraba (N4.8bn), and Gombe states (N5.4bn) recorded the least IGRs. Cumulatively, Pay-as-you-earn (PAYE) recorded the highest contribution to states' total IGR amounting to N488.1bn while road taxes contributed the least (N16.8bn).

The data also revealed that based on zones, the South-West zone recorded the highest IGR, amounting to N385.4bn, followed by the South-South zone (N156.2bn), while the North-East zone recorded the least (N42.9bn).

In 2020, states' share (not including FCT) of the FAAC transfers declined by -7.3%, while IGR of the states declined by -3.6%. The NBS data shows that in 2020, total FAAC payouts to the 36 states as a percentage of aggregate revenue accounted for 64%, while IGR as a percentage of aggregate revenue accounted for 36%.

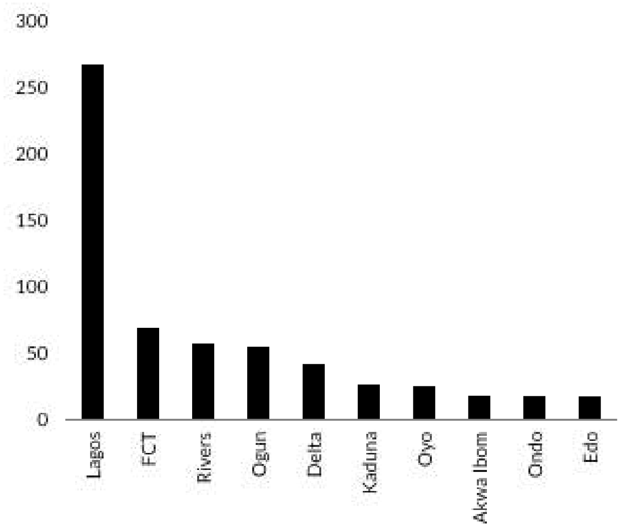
According to the Debt Management Office (DMO), the domestic debt stock for states and the FCT stood at N4.2trn (USD10.1bn) as at

State governments' sources of revenue, 2020 (% shares)



Sources: CBN, Coronation Merchant Bank Economic Research

Top 10 IGR by state, H1 '21 (NGN' bn)



Sources: NBS, Coronation Merchant Bank Economic Research

end-September '21. Lagos (N532.1bn), Akwa Ibom (N234.9bn), and Rivers (N226.4bn) recorded the highest domestic debt, while Jigawa (N32.9bn), Ebonyi (N42.9bn), and Kebbi (N52.9bn) recorded the least. The external debt stock for states and FCT totalled N1.9trn (USD4.6bn) in end-June '21. In the last period of oil price weakness (starting in 2014 and running through to 2017), state governments' arrears in salary and pension payments soared despite five debt relief packages. The best known were the conversion of borrowings from DMBs into FGN long bonds and 'refunds' for overpayments of debt service to the Paris and London clubs of external creditors more than a decade ago.

Excluding the need to avoid overreliance on FAAC distributions, boosting IGR will provide state governments with the opportunity to pursue profitable capital programmes. Furthermore, the deployment of public-private partnerships in various sectors such as agriculture, health, education, among others, could maximise revenue-generating opportunities for state governments.

Monetary policy

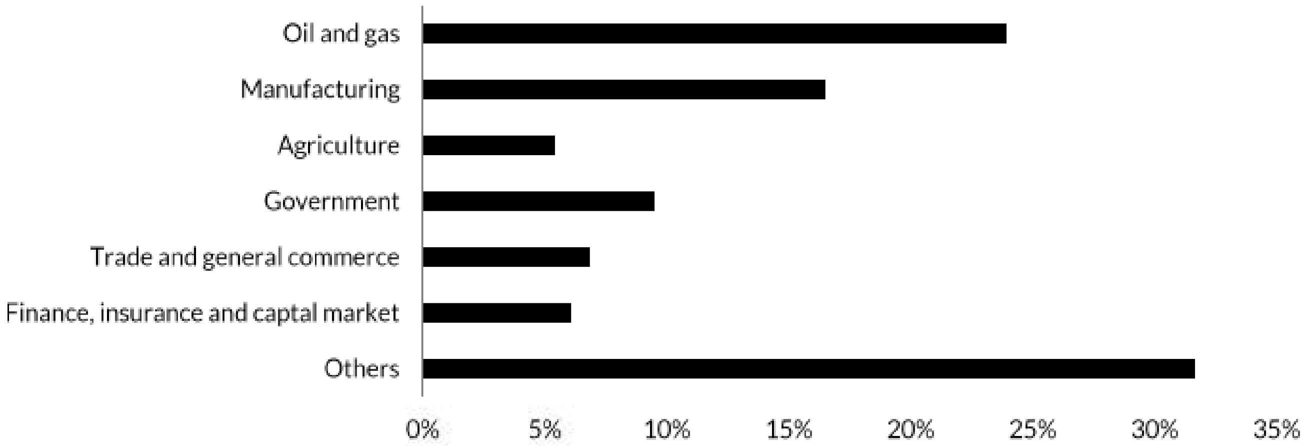
Financial intermediation

According to data from the CBN, credit allocation to the private sector increased by 17.8% y/y (or N3.4trn) from N19.4trn recorded in September '20 to N22.8trn in September '21. We see that deposit money banks (DMBs) allocated N5.5trn (23.9%) of their total loan books to the oil and gas sector in terms of sectoral allocation. This is an increase of 5.3% from N5.1trn recorded in the corresponding period of 2020.

Credit to the manufacturing sector accounted for 16.5% of total bank loans. Lending to the sector increased by 24.2%y/y to N3.8trn in 2021. Businesses within specific sectors are often regarded as risky, and as such, DMBs are somewhat reluctant to lend to these sectors. Therefore, intervention schemes from development banks and the CBN to sectors such as agriculture are necessary. Credit allocation by banks to the agriculture sector increased by 32.7% y/y to N1.2trn in September '21.

The data also show the amount of bank loans to other sectors as at September '21, such as government (N2.2trn), trade and general commerce (N1.6trn), finance, insurance and capital market (1.4trn), ICT (N1.2trn), construction (N1.1trn), power and energy (N500bn) and real estate (N680bn).

DMBs sectoral allocation of credit, September '21 (% share)



Source: CBN, Coronation Merchant Bank Economic Research

The Asset Management Corporation of Nigeria (AMCON) was created in 2010 by the CBN to help clean up asset quality in the banking system following the 2009 financial crisis. AMCON issued bonds in exchange for eligible bank assets. Outstanding dues are currently around N4.4trn, and an amendment to the act passed in August '19 strengthens AMCON's capacity for debt collection. For example, the agency can place debtors' bank accounts under surveillance, furnish MDAs with a list of debtors, and advise the government to deny them contract awards.

Given the preference of DMBs for FGN securities due to their risk-free nature, the CBN introduced a minimum loan-to-deposit ratio of 65% in 2019 to increase lending by banks to the real economy. Penalties for non-compliance include cash reserves requirements (CRR) equivalent to 50% of the lending shortfall.

Although the COVID-19 pandemic has led to asset-quality deterioration, banks have taken tight prudential measures and restructuring and regulatory forbearance to reduce nonperforming loans (NPLs) in the industry. As a result, the NPL ratio is currently at 4.9%, declining from 6% recorded at end-2020. However, there is a possibility the NPL ratio could increase, given that regulatory forbearance measures have elapsed for most loans.

Nigerian banks are relatively well managed. However, they continue to be affected by governance deficiencies. These gaps could create systemic risks. However, to enhance financial intermediation and support economic growth, we expect that the CBN will continue to safeguard the banking sector's stability.

We expect a boost to financial inclusion as the unbanked population is gradually integrated into the formal economy. This is on the back of the launch of the e-Naira in October '21. The eNaira is a Central Bank Digital Currency (CBDC) issued by the CBN as a legal tender. It is the digital equivalent of the physical notes, and shares all its characteristics, including its value. However, it is non-interest bearing. Other potential benefits include:

- Fast and cheap payment channels that could reduce the cost of processing cash and provide support to the digital economy.

- Improved diaspora remittances, given that these remittances are a crucial source of foreign exchange. The eNaira has the potential to provide a secure and cost-effective process for remittances and ultimately boost remittance flows.

- Improved effectiveness of FGN/CBN intervention policies. The COVID-19 pandemic tested the effectiveness of payment systems globally and highlighted gaps, especially in the distribution mechanism of welfare incentives. The eNaira should make it possible for the FGN to directly make targeted welfare payments to citizens. This will reduce the cost of delivering welfare benefits to citizens in need of welfare support and ensure that the right people are receiving support.

- Improved tax remittance and collection support, thereby improving the FGN's revenue and reducing instances of tax avoidance and tax evasion.

The CBN has minted N2bn worth of eNaira, and N1bn has been disbursed to banks and individuals from the CBN's treasury account. The portion of eNaira that is minted is taken out of the currency in circulation. Over c.1 million downloads have taken place, and c.200,000 of those downloads are from the Diaspora.

The eNaira is currently retail, and the CBN has plans to go wholesale in the sense of issuing CBN securities and potentially use it to mop up liquidity and even disburse the ways and means advances. The CBN is conscious of the risk of financial disintermediation hence, the involvement of the DMBs. The emergence of mobile money given the CBN's approval of Payment Service Banks (PSBs), such as MTN Nigeria (MOMO PSB), Airtel Africa (SMART CASH PSB), 9Mobile (9PSB) and Globacom (Money Master), is another boost to financial

Monetary policy and Foreign Exchange

Nigeria employs a managed float exchange rate regime, with the CBN regularly intervening in the fx market and defending the exchange rate with a combination of administrative measures such as the exclusion of 43 import items from accessing fx at the official window. However, demand for fx remains high, and the supply is inadequate for regular uses.

Over the past four years, the CBN's fx reforms have improved liquidity. However, in light of the COVID-19 outbreak, there were additional vulnerabilities as swings in oil prices and increased exit of foreign portfolio investors (FPIs) adversely affected exchange rate stability.

Oil and gas earnings are central to foreign exchange inflows as crude oil accounted for the largest share (78%) of total exports in Q3 '21. As at September '21, they provided N10trn in the first nine months of 2021, or 76.5% of merchandise export earnings. While non-crude oil exports make up the remaining 23.5%, providing N3trn. However, the value of crude oil exports declined by 1.3% q/q but rose by 66% y/y. Given the predominant role of oil revenue in fx inflows, we note that in 2021, the local currency could not fully benefit from the oil rally due to relatively lower oil production.

In March '21, the CBN launched its own "Naira 4 dollar scheme" to boost the inflow of workers' remittances. The approach is that the CBN bears the cost of a NGN5 bonus for every USD1 remitted by a licensed sender and collected by the designated beneficiary. The central bank pays a 2% bonus for all remittances in Bangladesh. Transfers below TKD500,000 (USD5,910) do not require the beneficiary's documents, and in December '20, the requirements for larger transactions were much reduced. For Pakistan, approved sending bodies waive their remittance fees for transactions above a threshold. A strong rebound in remittances to Nigeria would be welcome to boost household consumption and small-scale construction. Furthermore, it would also ease the pressure on the current account.

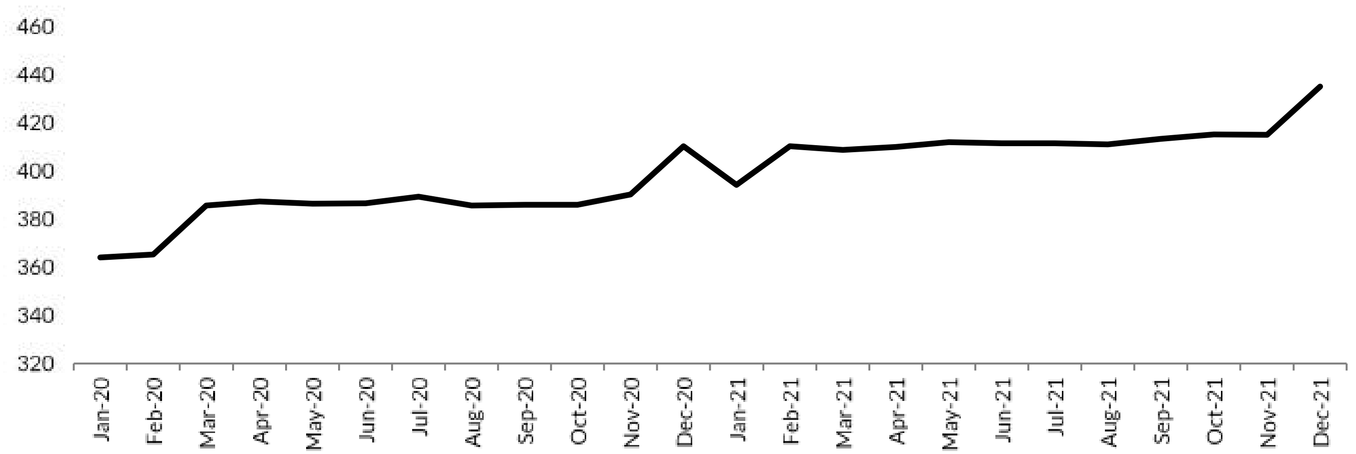
The naira depreciated significantly in the Nigerian Autonomous Foreign Exchange (NAFEX) window in the same month. In May '21, the CBN adopted the NAFEX rate as the official exchange rate, as shown on its website. In July, the CBN banned the sale of fx to Bureau de Change (BDC) operators and then began channelling weekly allocations of dollar sales to commercial banks to meet fx requests.

In terms of foreign exchange outflows, the import demand ranges from agricultural products such as animal products and vegetable products to chemical and allied industries, boilers, machinery and appliances, refined petroleum products, vehicles, aircraft, and vessels, among others. Nigeria was unable to reap the benefits of the oil price rally due to challenges in oil production. However, fx savings of USD7.5bn annually is expected with the commencement of operations by the Dangote refinery.

Data from the CBN showed that in Q3 '21, total fx inflows increased to USD30.2bn from USD18.4bn in the preceding quarter. The sharp rise in inflows was mostly due to a 158% q/q (141% y/y) increase in inflow through the CBN to USD16.8bn. This reflects the IMF's N3.4bn Special drawing rights allocation and the proceeds from FGN's USD4bn Eurobond sale in September '21. Nevertheless, the fundamental fx supply constraints remain, and the gap between the fx rate in the NAFEX window and the parallel market widened from an average of 18% in Q1 '21 to 36.7% in Q4 '21.

In the staff concluding statement of the 2021 IMF article IV mission, the Fund welcomed steps toward unification of the exchange rates but pointed out that a further move toward a market-clearing exchange rate would help build foreign exchange buffers through higher capital inflows. The IMF also pointed out that the continued dependence on one product for fx inflows poses a threat to Nigeria's fx market. Specialised government interventions that can assist with infrastructure development and improve the business environment will push the economy towards achieving greater fx revenue diversification.

(NGN/USD) NAFEX



Source: FMDQ, Coronation Merchant Bank Economic Research

Monetary policy committee

The Monetary Policy Committee (MPC) held its latest meeting in January '22. In light of the continued recovery of the global economy and improving output growth in the domestic economy, the ten (10) members of the committee voted to keep all parameters unchanged. Therefore, maintaining the policy rate at 11.5%, asymmetric corridor at +100/-700bp, cash reserve ratio at 27.5% and the liquidity ratio at 30%.

At its January '22 meeting, the MPC noted that loosening was undesirable as it could trigger foreign exchange demand pressure. The excess liquidity would be channelled to either unnecessary importations or speculative exchange rate holding, leading to fx depreciation and increased inflationary pressure. The MPC also noted that tightening, given the fragile state of the current GDP growth rate, and the potential domestic and external headwinds confronting the economy, was not a feasible step to take.

Based on responses by the CBN governor at the latest MPC meeting, Nigeria was not a major beneficiary of capital flows to emerging economies during the period of stimulus. Consequently, it is not at risk of substantial capital outflows. However, when we consider the backlog of delayed external payments, it consists mainly of outbound fx outflows for offshore investors. The CBN governor acknowledged that over the past two years, the bank has engaged in a systematic and orderly exit of FPIs. We hinge this largely on the state of current yields, which do not meet FPI expectations.

On domestic market trends, the governor disclosed CBN staff projections that expect the economy to maintain its growth trajectory and will expand by 3.1% in 2021 and 2.8% in 2022. However, the CBN's 2022 growth forecast is significantly lower than FGN's estimate of 4.2%.

While examining the most recent personal statements by members of the monetary policy committee, we note some relevant themes across the statements. They include: the current pressures on domestic prices appear to be largely supply-related, the positive trajectory of output and inflation, as well as ongoing CBN interventions in growth-enhancing sectors and the rising negative sentiments among global leaders and investors to finance new investments in the development of fossil energy, in addition to uncertainty around 2022, being a pre-election year.

Inflationary pressure still stretching wallets

Nigeria features as one of the top ten countries with the highest headline inflation rates in Africa, alongside countries such as Sudan (318.21% y/y), Zimbabwe (60.74% y/y) and Ethiopia (35.10% y/y) as at December '21. Over the past five years, headline inflation in Nigeria has remained at double-digit. Based on data from the National Bureau of Statistics (NBS), headline inflation stood at 15.63% y/y at end-December '21. This is a decline of 13bps compared to 15.75% y/y recorded at end-2020. The average headline inflation rate for 2021 is 16.98%, 377bps higher than the 13.21% recorded at end-2020. Based on our estimates, over the past five years average headline inflation is 14.32%.

Headline inflation in 2021, closed the year at 15.63% y/y, declining by 13bps compared to 15.75% y/y recorded in the corresponding period in 2020. The slight decline in inflation can be partly attributed to positive base effects, interventions by the FGN to improve national security, as well as the sustained deceleration of food inflation in March '21. Nevertheless, domestic prices are still partly driven by challenges such as high energy prices, currency depreciation and forex restrictions, supply chain disruptions due to COVID-19, limited market access, and current security challenges. In addition, due to insufficient fx flows, the gap between the parallel and official markets has indirectly affected businesses and passed through to market prices for goods and services.

Although we saw the positive effects of food inflation on the headline inflation rate, the situation of food inflation compared to 2020 has not improved. Food inflation stood at 17.37% y/y as at end-2021. The average food inflation in 2021 is 20.50%, which is 440bps higher than the 16.11% recorded in 2021. The inflationary pressure in food inflation can be partly attributed to security challenges, higher logistics costs, storage issues, post-harvest losses, poor distribution network, and supply chain disruptions due to COVID-19. There have been significant increases in the prices of staple foods such as bread and cereals, potatoes, yams, meat, beans, fish, fruits, oils and fats, yam and other tubers, among others. For example, 50kg of beans cost N21,000 in December '20. However, that price has increased by 166.7% to N56,000 as at December '20.

Core inflation ended the period with 13.87% y/y while the average-over-period was 13.14% in 2021, increasing by 285bps compared to 10.13% in the previous year. The highest increases in core inflation during the year were recorded in prices of household textile, vehicles, garments, major household appliances, hospital services, catering services, among others.

On a y/y basis, imported food price inflation stood at 17.34% y/y as at end-2021, increasing by 68bps compared to 16.65% y/y in the corresponding period in 2020.

The NBS also tracks headline inflation by state, with Ebonyi recording the highest (18.71% y/y) and Kwara recording the lowest (12.32% y/y) as at December '21. It is worth noting that household baskets vary across states due to different consumption patterns.

Although consumers' purchasing power has taken a hit in the past few years, growth and output are likely to improve consumers' purchasing power in the long-run. These are a function of domestic and international investments. The factors that would improve domestic and international investments growth include ensuring that interest rates move as close as possible to the inflation rate to incentivise citizens to save and invest, as well as develop policies that encourage investment flows into the market.

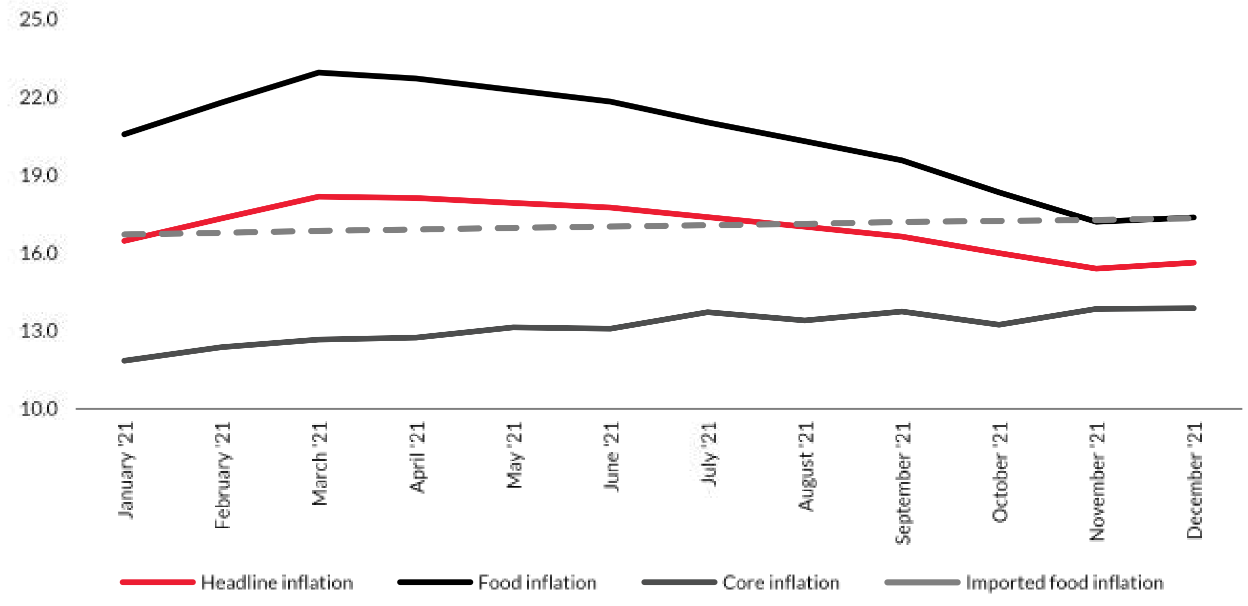
The CBN's in-house estimates suggest that further rebound in output growth will hinge on continued stability in oil prices and robust vaccination in Nigeria and across other countries. However, the important factors required to sustain the recovery momentum includes foreign exchange market stability, further reduction in inflationary pressure in the economy and continued interventions by the monetary and fiscal authorities.

The headline inflation rate is above the 6-9% benchmark. However, based on the latest personal statements of MPC members, efforts at mitigating supply induced inflation are yielding results. Similarly, routine monetary sterilisation is assisting with keeping monetary induced inflation under control without requiring adjustments to the primary policy levers.

We note that Nigeria is not the only African country that recorded a reversal in the downward trend of its headline inflation. During the past year, Ghana and Egypt also recorded upticks in their respective headline inflation rate. Factors such as sustained structural issues have contributed to inflationary pressure in Nigeria, while rising fuel prices, cost of electricity as well as health services are some reasons behind the inflation trend seen in Ghana and Egypt. Although Nigeria and Egypt have kept their monetary policy rate unchanged, at its meeting held in November '21, the Bank of Ghana (BoG) hiked its policy rate by 100bps to 14.50% on the back of rising inflation.

We commend the FGN's efforts towards improving national security, which by extension, should contribute to easing bottlenecks affecting food supply. This bodes well for the food inflation rate. However, supply-side constraints and electioneering could keep the headline inflation rate at double-digit in 2022.

Headline, food, core & imported food inflation y/y (%)



Sources: NBS, Coronation Merchant Bank Economic Research

Trade dynamics

The latest report from the NBS in its series on foreign trade in goods reveals that in the first 9 months of 2021, the total value of trade stood at N35.07trn, representing an increase of 51% compared with the corresponding period in the previous year. However, in Q3 '21 alone, the total value of trade stood at N13.28trn, representing an increase of 10% on the preceding quarter and a y/y increase of 59%. Compared with Q2 '21, the total export value rose by just 1% to N5.13trn, and the import value rose by 17% to N8.15trn. The net result was a deficit of N3.02trn, which followed a deficit of N1.87trn the previous quarter. This makes eight consecutive trade deficits. The data were drawn primarily from the Nigeria Customs Service.

In 2020, total trade declined primarily due to lower exports. The implementation of lockdowns and restrictions had an adverse effect on export activity last year. The total trade value as a percentage of GDP stood at 21% in 2020. In Q3 '21, total trade as a percentage of GDP stood at 8.7%. For Nigeria, the NBS notes that the majority of imports in Q3 '21 originated from East Asia (China, especially). The value of imported agricultural goods, manufactured products as well as oil-related products rose by 21% q/q, 14% q/q and 35% q/q respectively.

Regarding export destination, India remained the top exporting partner for Nigeria in Q3 '21. The five top exports partners were India (14.8%), Spain (12.2%), Italy (8.7%), France (7.1%), and the Netherlands (4.7%). These five countries accounted for 47.5% of the total exports in Q3 '21. As usual, crude oil accounted for the largest share (78%) of total exports in Q3. However, the value of crude oil exports declined by 1.3% q/q but rose by 66% y/y. The crude oil price (Bonny Light) averaged USD73.8/b in Q3 '21.

It is worth highlighting that raw cocoa beans, sesame seeds, coconut, ginger, natural rubber and aluminium featured as non-oil export products in 2021.

Nigeria exported goods valued at N347bn to fellow members of the Economic Community of West African States (ECOWAS), compared with N363bn the previous quarter. This represented 52% of total exports within Africa. Meanwhile, imports from ECOWAS accounted for 11% of the value of total imports. The leading port of operation was the Apapa Port. Goods worth N11.98trn exited the country through this port between January – September '21. The next leading port of operation was Port Harcourt, through which goods worth N641bn were shipped to partner countries. Tin Can Island was also very active, and goods worth N280bn exited Nigeria through this port during the same period.

The African Continental Free Trade Area (AfCFTA) agreement can alleviate the effects of COVID-19 in Africa and intra-African trade. The agreement has several benefits, including the potential to boost economies and bolster trade diversity, encourage industrialisation, eliminate tariffs and non-tariff barriers and contribute to sustainable growth, among others.

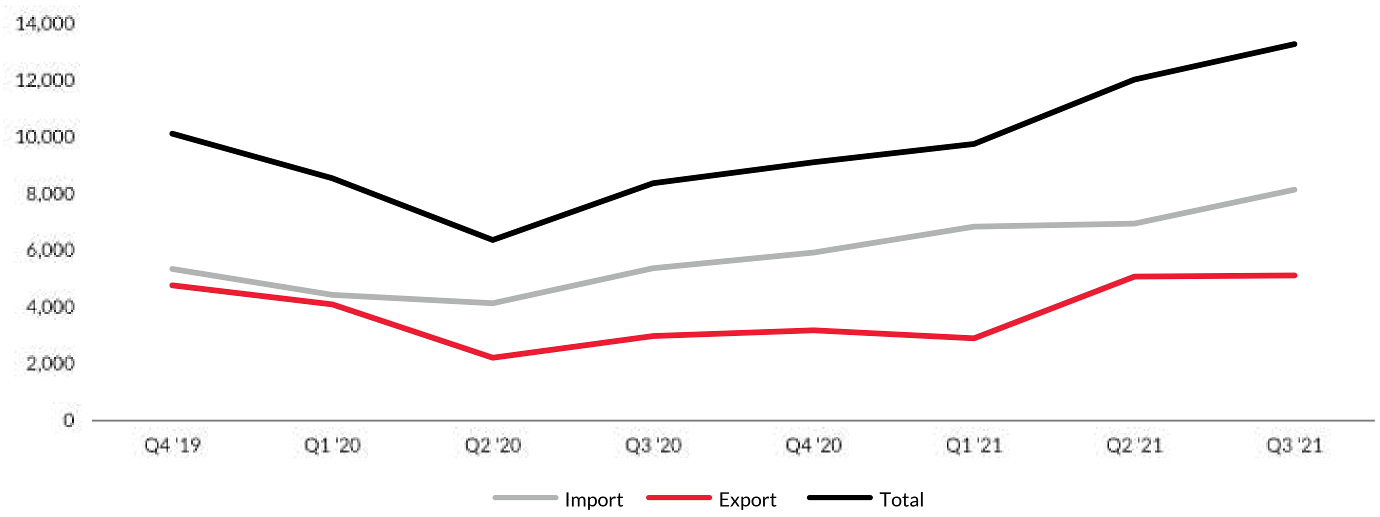
On the progress of the agreement, 41 out of 54 countries have ratified the treaty as at December '21. Additionally, the negotiation of the rules of origin is close to completion. There was also a roll-out of the pilot phase of the Pan-African Settlement System (PAPSS), a combined initiative of AFREXIM (African Export and Import) Bank and the AfCFTA. The PAPSS is a cross-border financial market infrastructure expected to enable payment transactions across Africa and, curb some of the existing trade challenges.

From our vantage point, low hanging fruits regarding merchandise trade activities across African countries include vehicles and transport equipment, agro-food products, energy, metals, and machinery, as well as chemical products.

As for the services sectors, we highlight ICT, infrastructure and logistics, finance, banking and insurance, education, and health.

The successful implementation of the AfCFTA should boost both extra- and intra-African trade, but this is primarily hinged upon successfully tackling supply-side constraints, closing the trade financing gaps, among others. Industry sources suggest that Africa's current untapped export potential amounts to USD21.9bn, equivalent to 43% of intra-African exports. The AfCFTA agreement can potentially add USD9.2bn worth of exports through partial tariff liberalisation over the next five years. Additionally, the agreement could boost employment and earning capacities among marginalised groups (i.e., women and youth).

Merchandise trade (N'bn)



Sources: NBS, Coronation Merchant Bank Economic Research

The 2022 Outlook from Our Vantage Point

Global

Economies across the globe are still grappling with the economic effects from the coronavirus pandemic which emerged in 2020. The global economy is expected to remain in recovery mode, but the rebound will be uneven across countries, as some advanced economies are likely to post stronger output growth compared with developing economies. However, the recovery of many countries is constrained by resurgences of COVID-19, uneven vaccination, and a partial withdrawal of government economic support measures.

The economic scarring from the pandemic did not go unnoticed across African economies. Africa houses more than a handful of low-income economies. Fragile and conflict-affected low-income economies have been the hardest hit by the pandemic, and per capita income gains have been set back severely. Across many developing countries, governments lack the policy flexibility to support significant boosts to growth given new COVID-19 variants, supply-chain bottlenecks, inflationary pressure, and high financial vulnerabilities. Economies need a comprehensive set of national policy responses to achieve favourable growth paths.

In its latest global economic outlook, the IMF trimmed its 2022 global growth forecast from 4.9% y/y to 4.4% y/y. We note that there were significant reductions in the 2022 forecasts for two of the largest economies, the US and China. According to the IMF, the emergence of new COVID-19 variants could prolong the pandemic and induce renewed economic disruptions. Furthermore, the 2022 growth projection for the United States was revised downwards from 5.2% y/y to 4.0% y/y. This was driven by a revised assumption removing the build back better fiscal policy package from the forecast baseline, earlier withdrawal of monetary accommodation, and continued supply shortages, leading to broadening price pressures. The 2022 GDP growth projection for China was also revised downwards, from 5.6% to 4.8%. This is mainly on the back of pandemic-induced disruptions related to the zero-tolerance COVID-19 policy and prolonged financial stress among property developers within the country.

The general consensus is that elevated headline inflation is expected to persist, particularly given ongoing supply chain disruptions and expectations of a high global oil price regime in 2022. However, inflation should slow down gradually as supply-demand imbalances dwindle during the year, and monetary policy committees across advanced economies respond with adjustments to their policy tools. Given the high possibility of policy rate hikes by advanced economies, downside risks to financial stability, capital flows, currencies, and fiscal positions for emerging and developing economies could emerge. Another concern to note is that geopolitical tensions could remain elevated. We expect countries across the globe to remain steadfast with strengthening their respective national health strategies, as countries are yet to fully recover from the adverse ripple effects of the global health crisis (i.e. coronavirus).

Domestic

GDP

Nigeria's economy has posted GDP expansion for four quarters since its last recession recorded in 2020. However, the current growth rate levels are unable to halt the steady decline in average incomes and the rise in poverty. The impact of the COVID-19 virus has further exposed the country's macroeconomic weaknesses, including heavy dependence on oil, the substantial untaxed informal economy and the slow permeation of reforms and policies into the real economy. Historically, the first quarter of the year records relatively weaker output levels when compared with Q2, Q3 and Q4. Our in-house estimates assume GDP at current market prices as high as pre-pandemic levels (2019) for each quarter this year. We considered increased vaccination rate, stable oil prices above USD65/b and sustained growth in the major sectors, among others. For sectorial growth, we note that the steady financial injections/interventions into select sectors such as agriculture by the CBN have assisted with keeping economic activity afloat within these sectors. The issue of a large informal economy is one reason for the misalignment between the growth figures recorded in these sectors and intervention efforts. The NBS is expected to embark on its GDP-rebasing exercise in 2023. Before the rebasing exercise can be completed, preliminary surveys are required. We understand that these surveys are already being conducted. They include: the national business sample census (conducted in 2021), and the national agricultural sample census which is likely to be conducted by April '22, among others.

Consumption patterns are relatively better and are almost mirroring pre-pandemic levels. However, we must note that consumer pockets are still steadily being rebuilt. We have also put into consideration a relatively stable exchange rate and the penetration pace of inflation figures into the real economy. We expect some fiscal stimulus on the back of FGN's capital expenses. Furthermore, we anticipate investment spending in targeted sectors. We are optimistic about the implementation of the PIA, which should improve revenue collection and could boost investor appetite. Looking ahead, overall pre-election expenditure towards the 2023 general elections should also contribute to the growth drive. For 2022, we expect a GDP growth of 2.6% y/y.

Oil

In December '21, fluctuations in oil prices were triggered by fears that the rapid spread of the Omicron variant could derail the global economic and oil demand recovery. Crude oil demand has remained relatively firm despite the surge in COVID-19 infections due to the Omicron variant, as major economies have avoided complete lockdowns. In the 2022 outlook for oil, the upside risks rest on the possibility that oil demand might be stronger than anticipated as global aviation activity recovers and on expectations of supply constraints given that OPEC continues to struggle with hitting its quota of 400,000 barrels per day (monthly increases). This is due to the lack of production capacity in some member countries. The downside risks to the elevated oil price regime include the emergence of COVID-19 variants that could render the vaccines ineffective, Iranian oil entering the market as talks resume on Iran's nuclear program. Also included is the potential for lifting most international sanctions, including its oil exports as well as an acceleration in the US oil production.

Inflation

As for inflation, we note that the uptick recorded in the headline inflation rate in December '21 was due to seasonal effect, on the back of the end-year festivities. Based on the inflationary trend seen between 2018-2021, the headline inflation rate usually posts a y/y increase in December. There are currently 740 items within Nigeria's inflation basket. Perhaps, updating the basket will result in a stronger reflection of current market realities. For 2022, we expect the impact of positive base effects on the headline inflation rate to wither away by the second quarter of the year. Looking ahead, on the back of specific factors which could result in upward pressure on prices, we have imposed visible fluctuations in the m/m inflation rate using a few assumptions. These include insecurity, modest exchange rate depreciation, hike in electricity prices, electioneering and the possible N10 per litre excise duty imposed on non-alcoholic carbonated and sweetened beverages. We see average inflation for FY 2022 at 13.88% y/y and at 13.91% y/y at end-December '22.

External reserves and the exchange rate

We have a cautiously optimistic view of the exchange rate. There are concerns around inflows (accretion) into the external reserves. At the France-Nigeria Security and Economic Summit held in November '21 in Paris, the CBN governor stated that foreign reserves will surpass the USD42bn threshold by mid-2022. This view was primarily hinged upon elevated crude oil price, the impact of Eurobond issuance, and a stable exchange rate.

Although oil prices have remained relatively healthy over the past 12-months, it is susceptible to economic shocks. Nigeria's oil production capacity continues to limit the country's ability to reap the benefits of elevated oil prices. According to OPEC data obtained from secondary sources, Nigeria's oil output (excluding condensates) increased by only 8.3% m/m to c.1.3mbpd in November '21, which is below budget estimates (1.8mbpd) and OPEC quota (1.6mbpd). Another factor to consider when examining reserves is foreign portfolio investment inflows. Nigeria's macroeconomic environment remains fragile and is attractive to investors with a huge risk appetite. Given the general view that tapering across advanced economies will kick off in 2022, this suggests that monetary policy normalisation is on the horizon. One potential implication of this is a shift in international capital flows away from emerging and frontier markets such as Nigeria, as well as a spike in borrowing costs on the global capital market. In addition, negative real interest rates as the headline inflation rate remains in double digits would also contribute to weak portfolio investment inflows.

We expect inflows into the foreign reserves on the back of external borrowings (there seems to be keen interest in bilateral and multilateral loans in 2022, as seen in the latest debt management framework 2021-2025). Regarding Eurobond issuances, there is no clear direction on issuance dates for 2022. Barring any large outflows, we see reserves at +/- USD38bn by year-end 2022. This can provide cover of c.9.0 months' merchandise imports based on the balance of payments for the 12 months to December '21, and c.7.0 months when we add services. We consider this a healthy buffer and sufficient to defend the naira at current levels (we have provided room for potential (small) depreciations). We see the I&E/NAFEX rate at N434/USD at end-2022.

Monetary policy

On monetary policy parameters, we expect the monetary policy committee to maintain its cautious stance. The assumption of one policy rate hike (of at least 50bps) this year is not far-fetched. The committee is still leaning towards striking a balance between supporting GDP growth while maintaining stability across inflation, exchange rate, and market rates. We expect the CBN to continue with its liquidity mop-up strategy. Our view is that CRR will be maintained at 27.5%. Looking ahead, we expect a more targeted credit support by the CBN to households, SMEs, health, agriculture, and manufacturing sectors. Another assumption worth highlighting is that there is a possibility that the CBN/MPC could tilt towards hiking its MPR in an attempt to prevent capital flight as advanced economies raise their policy rates. We see the MPR at 12.0% by end-2022.

Fiscal policy

Turning our focus to fiscal policy, the 2022 FGN budget has an estimated aggregate expenditure headline at N17.1trn, which is 17% higher than the 2021 FGN aggregate expenditure of N14.6trn. The aggregate amount allocated for capital expenditure in the 2022 budget is N5.96trn. This represents 35% of total expenditure (above the 30% target set by the current administration) and is 14% higher than the 2021 provision of N5.23trn. The budget has an estimated deficit of N6.39trn, approximately 4.1% of total GDP (in 2020), and is slightly above the 3% ceiling set by the fiscal responsibility Act 2007 (FRA). The aggregate revenue available to fund the 2022 national budget is projected at N10.7trn. The projected revenue is 32.3% higher than the previous year and comprises an estimated oil revenue of N3.4trn (31.3% of total revenue) and non-oil revenue of N7.3trn (68.7% of total revenue). The FGN plans to grow the revenue-to-GDP ratio from about 8% to 15% by 2025. In line with the 2022 national budget priorities, some critical policies in the Finance Act 2021 that could assist with achieving this include: the imposition of a N10/litre excise duty on non-alcoholic, carbonated and sweetened beverages; a 10% capital gains tax on shares disposal worth at least N100m in a calendar year, excluding the re-invested part. Other fiscal adjustments include a 0.25% science and engineering levy on profit before tax of commercial companies, and technology reforms by the Federal Inland Revenue Service (FIRS) to enhance tax administration.

The subsidy regime was expected to be halted this year, in line with the implementation of the PIA. However, following opposition from organised labour unions, further considerations of the current economic realities such as heightened inflation and the absence of measures that would enable a smoother exit from the fuel subsidy regime, the FGN decided to retain fuel subsidy payment for another

18 months. According to the Minister of Finance, the 2022 budget contains a provision of N443bn for fuel subsidy between January - June ‘22. In January ‘22, the FGN approved N3trn requested by the NNPC for fuel subsidy payment in 2022. We understand that the FGN will engage with the NNPC to seek ways to trim the estimated subsidy cost. However, we note that the government plans to fund the N3trn fuel subsidy using outstanding debts owed by NNPC, which are being sorted through the ongoing financial reconciliations with the corporation.

Additionally, given the current elevated oil price, compared with the oil price benchmark in the 2022 budget, there might be room for the FGN to source funds for fuel subsidy from its windfall/savings. Overall, we expect the budget deficit this year to be higher than the current projection and that domestic borrowing could exceed N2.6trn. This implies upward pressure on FGN bonds and NTB yields.

Other core factors that will influence the economic landscape this year include completion and launch of the Dangote refinery; implementation of the National Development Plan 2021-2025; Introduction of the International Financial Reporting Standards (IFRS)-17 for insurance companies and recapitalization of insurance and pension firms; commencement of operations by the Infrastructure Company (INFRACo); the introduction of the pan-African payment and settlement system (PAPSS); fx liquidity; election-related spending and rising levels of insecurity.

Core Economic Indicators

	2019	2020	2021F	2022F
Real growth (in percent)	2.3	-1.9	2.8	2.6
CPI (in percent; y/y;year-end)	12.0	15.8	15.6	13.9
Monetary policy rate (%; year-end)	13.5	11.5	11.5	12.0
Bonny Light (end-period spot; USD/b)	67.9	51.3	76.3	72.0
Bonny Light (average spot; USD/b)	65.5	42.1	71.1	74.5
Official fx reserves (in USD bn; year-end)	38.6	35.4	40.5	38.0
NAFEX/I&E (NGN/USD; end-period)	364.5	410.3	435.0	434.0
1 Year NTB (in percent; end-period)	6.2	0.7	5.2	8.0

Source: CBN, National Bureau of Statistics (NBS), FMDQ, Coronation Merchant Bank Economic Research

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The Bank is currently rated ‘B-‘ with a Stable Outlook by Fitch, one of the ‘Top 3’ global rating agencies, and it is it the first and only Nigerian Merchant Bank to receive an international risk rating. It is also currently rated “A+” with a stable outlook by Agusto & Co.

The Bank has been the recipient of numerous international and national awards for product innovation and sound corporate governance practices. Some of the international awards it received in 2021, 2020 and 2019 include Best Investment Bank in Nigeria by Global Finance, Best Investment Bank in Nigeria by World Finance, Best Investment Bank in Nigeria by Global Banking & Finance Review, Best Investment Bank by Global Business Outlook and Best Investment Bank in Nigeria by International Finance.

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