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SHIFTING PERSPECTIVES, PUSHING ECONOMIC RESILIENCE

Economic Review and 2024 Outlook

MARCH 2024

Shifting Perspectives, Pushing Economic Resilience

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Global Economic Landscape, a Delicate Balance between Optimism and Caution

The resilience in the latter half of the previous year sets a foundation for cautious optimism, albeit amidst lingering challenges and potential turbulence. The anticipated steady global GDP growth of at least 3.1% y/y, in addition to a gradual decline in average global inflation, offers a glimpse of hope for Nigeria's macroeconomic trajectory. Labor market trends, inflation dynamics, investment patterns, and trade dynamics all play pivotal roles in shaping Nigeria's 2024 macroeconomic outlook.

Inflation, Still Elevated at Double-digit

In Nigeria, inflation is expected to remain elevated closing at 27.5% y/y (in our base-case scenario), driven by persistent factors such as insecurity, foreign exchange depreciation, and the impact of the removal of PMS subsidy, among others. Despite moderate dips, these expected fluctuations are largely attributed to statistical reasons (i.e., base effects) rather than improvements in supply-side dynamics or the successful mitigation of demand-pull inflation.

Fiscal Landscape, FGN Bond Yields

In our view, achieving the proposed revenue target in 2024 would require deliberate efforts towards tackling the challenges in the oil sector. The proposed fiscal deficit of N9.1trn is expected to be financed by new borrowings totaling c.N7.8trn (domestic: c.N6.1trn, external: c.N1.7trn). Other sources of deficit financing include privatization proceeds and drawdowns on bilateral/multilateral programs. We expect fixed income yields to remain elevated in 2024, potential hikes in the monetary policy rate and continuous market liquidity mop up will also impact yield movements.

CORE ECONOMIC INDICATORS	BASE CASE	OPTIMISTIC CASE	DOWNTURN CASE
GDP growth (%, y/y)	3.0	3.8	2.0
Inflation (%, y/y)	27.5	17.3	36.7
Monetary policy rate (%)	25.25	23.75	27.25
Avg. Bonny Light (USD/b)	82	106	70
Oil Production (mb/d)	1.4 – 1.6	1.7 – 2.0	1.1 – 1.2
External Reserves (USD ‘bn)	34	38	30

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Message from Leadership

CORONATION

Banjo Adegbohungbe
Managing Director/CEO

“ The outlook for Nigeria's economy in 2024 is cautiously optimistic. Projections indicate a moderate improvement, largely driven by anticipated recovery in the oil sector and government initiatives. Despite the resilience observed in sectors like services, agriculture, and manufacturing, significant challenges persist, including inflationary pressures, unemployment, and foreign exchange rate volatility. Various factors, such as global inflation trends and prudent monetary policies, offer some hope. Forecasts suggest that a continued decline in global inflation could mitigate the impact of imported inflation on domestic prices, fostering a conducive environment for economic activities. Furthermore, efforts to boost oil production through offshore exploration and the reduction of petrol subsidies are expected to support economic growth. The government's dedication to attracting foreign investments and stabilizing the currency further indicates a positive trajectory.

The CBN is poised to play a crucial role in addressing these challenges, with expected shifts in monetary policy and foreign exchange management strategies expected to influence market dynamics. While the outlook for 2024 appears promising, proactive measures are necessary to tackle lingering vulnerabilities and capitalize on emerging opportunities. A collaborative approach involving policymakers, regulatory authorities, and the private sector will be essential in guiding Nigeria's economy towards sustainable growth and resilience amidst evolving global dynamics and turbulence.

We are prepared to navigate through the economic challenges and exploit avenues for growth in 2024. This involves identifying and prioritizing emerging opportunities, maintaining our steadfast dedication to delivering exemplary customer service, and leveraging our resilient and diversified business model. We are ready to forge ahead, pioneering new paths of progress and sustaining our track record of earnings growth.

We express our sincere appreciation for your continued trust and support as we embark on this shared journey together.”

Message from Leadership

CORONATION

Paul Abiagam
Deputy Managing Director

"As we reflect on the tumultuous global landscape in 2023, from the war in Ukraine, rising tensions between Israel and Palestine, rising inflation across various countries, increased standard of living, recession woes and the scramble for various central banks to deal with these issues. Locally, issues with insecurity, oil theft, inflation, rising cost of living, brewing FX crisis and a turbulent electioneering season which resulted in a tricky handoff from General Muhammadu Buhari to Bola Ahmed Tinubu whose pro-market policies have only seemed to worsen the situation in the country.

Despite this uncertainty shrouding the market, our people have stayed focused on delivering for our clients and providing them with solutions tailor-made for their unique goals. In 2023, we earned a total revenue of N11,354bn, closing the year with a PBT of N7,624bn, managing to maintain our NPL ratio of 0%, underlying a stronger 2023 performance over 2022. During the year, we grew our market share in several of our SBU's and continued to make investments in our products, people, and technology. While we acknowledge that our journey is a continuous one, we are optimistic about the solid foundation we have laid and our ability to navigate the challenges with resilience.

I appreciate the efforts our employees and other stakeholders have put in to ensure our collective and individual successes. In the face of adversity, we have remained true to our core mission; making a positive impact on the lives and businesses of our clients.

Going forward, our focus would be on restructuring our business and positioning for business expansion and market share increase. As we navigate the complexities of the coming year, our unwavering dedication to discipline, excellence, innovation and client-centricity will serve as our ultimate guiding principles".

Thank you for your continued trust and support.

Message from Leadership

CORONATION

Chinwe Egwim

Chief Economist and Head, Economic Research/Intelligence

” The projected global GDP growth and expectations of a gradual decline in average global inflation, paints a cautiously optimistic picture for Nigeria's macroeconomic path. However, the expected growth deceleration in major economies could dampen external demand for Nigerian exports but this could be offset by growth opportunities in regions like South Asia. Labor market dynamics, inflation trends, investment patterns, and trade dynamics are all pivotal in shaping Nigeria's 2024 macroeconomic trajectory.

The rapid evolution of artificial intelligence and the urgency of climate action further emphasize the need for strategic foresight and proactive policymaking. In response, the FGN must adopt a comprehensive approach to balancing short-term imperatives with long-term sustainability goals. Prudent fiscal management, strategic infrastructure investments, and targeted interventions to address inflationary pressures and trade imbalances are paramount to ensuring macroeconomic stability and resilience.

Considering our 2024 projections, Nigeria’s GDP growth is expected to modestly improve to 3% y/y, albeit below the population growth rate, indicating a potential weak transmission effect on the real economy. Inflation is anticipated to persist at elevated levels, closing at 27.5% y/y (in our base-case scenario), driven by enduring factors such as insecurity and foreign exchange depreciation, among others. Monetary policy is poised to tighten. Liquidity constraints in the foreign exchange market are projected to persist, posing challenges amid weak supply versus high demand dynamics. In our downside scenario, projections paint a more challenging landscape across key indicators, with GDP growth slowing to 2% y/y and headline inflation spiking to 36.7% y/y. These projections underscore the importance of strategic planning to navigate potential uncertainties and downside risks, ensuring resilience and stability amidst evolving macroeconomic dynamics.”

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GLOBAL

Global growth: 2023 Review

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IMF revised global growth forecast in January's WEO.

Indicator	January's WEO GDP growth (y/y)
Global growth	3.1%

Select actuals

Country/Region	GDP growth Q4 '23 (y/y)	GDP growth Q3 '23 (y/y)	GDP growth Q2 '23 (y/y)	GDP growth Q1 '23 (y/y)
United States	3.1%	2.9%	2.4%	1.7%
Eurozone	0.1%	-0.1%	0.6%	1.3%
United Kingdom	-0.2%	0.2%	0.3%	0.3%
China	5.2%	4.9%	6.3%	4.5%

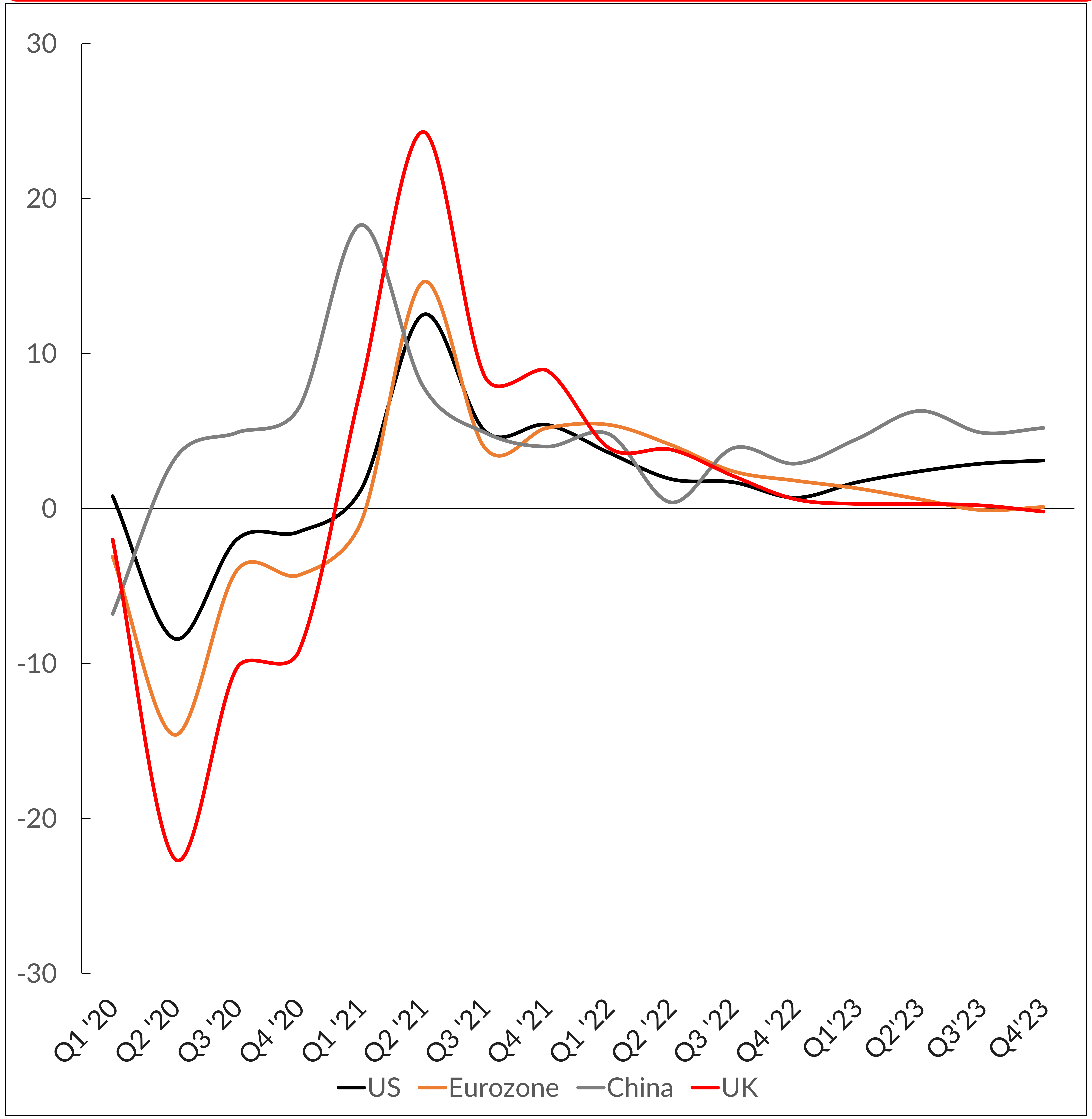
Advanced Economies

- ✓ Recession concerns lingered in advanced economies (UK, and Eurozone) as tight financial conditions continue to weigh on consumer wallets as the elevated inflation environment and the resultant effect of monetary policy tightening seen among central banks continued to impacted growth trends across countries.
- ✓ Growth in the US was resilient, due to stable consumer spending, a reflection of accumulated savings and a tight labor market. In March '23, three small-to-mid size U.S. banks failed, triggering a sharp decline in global bank stock prices and swift response by regulators to prevent potential global contagion.

Emerging Economies

- ✓ China's economy grew by 5.2% y/y in FY2023, surpassing the initial target of 5.0% y/y. However, this is low when compared to the pre-COVID period, underscoring weak consumption patterns ,the lingering effects of the prolonged downturn in the property sector as well as global headwinds.

Real GDP of select economies (y/y %)



Sources: Eurostat, National Bureau of Statistics of China, U.S. Bureau of Economic Analysis, Coronation Merchant Bank Economic Research

Global growth: 2024 Outlook

CORONATION

IMF revised global growth forecast in January's WEO.

Indicator	January's WEO GDP growth (y/y)
Global growth	3.1%

Advanced Economies

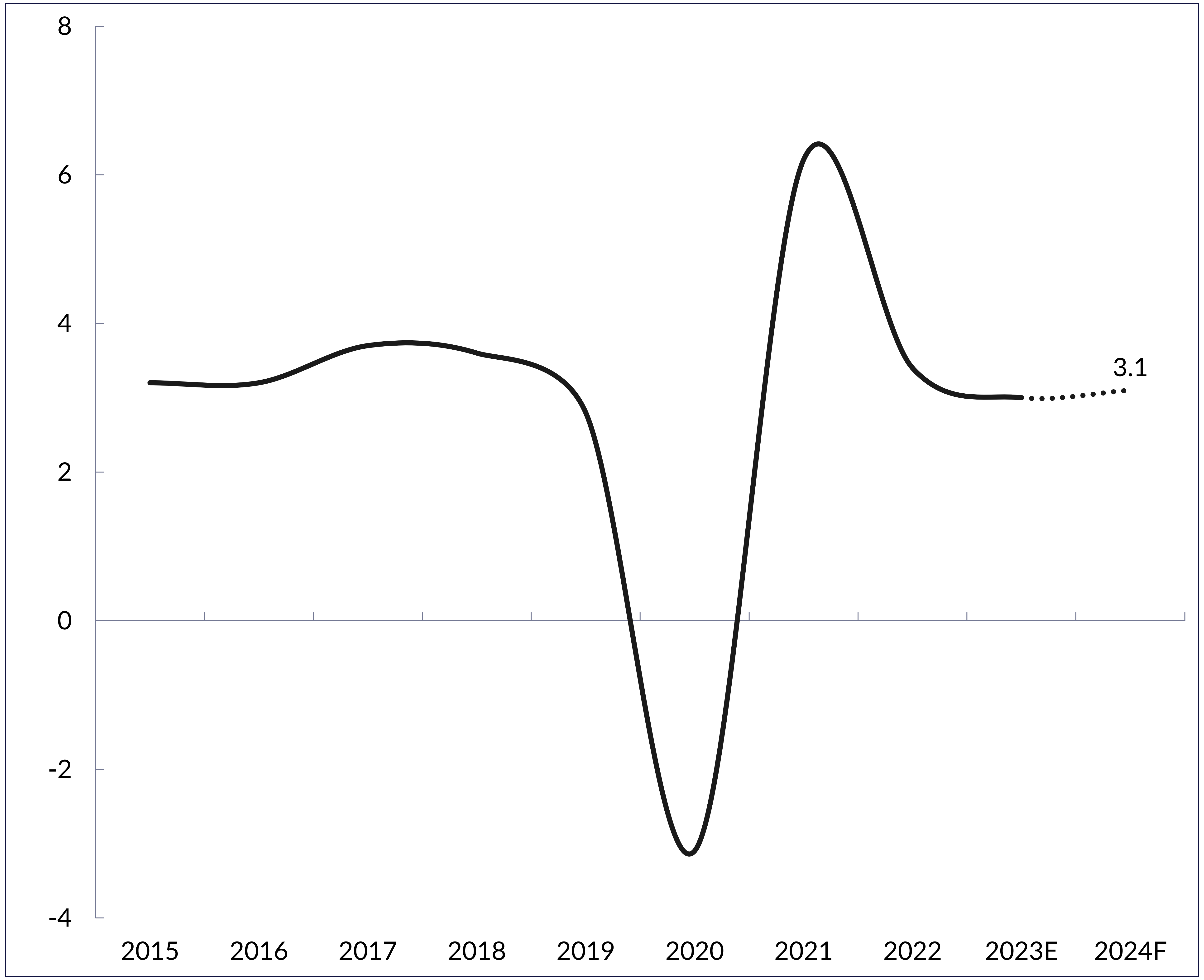
- ✓ For advanced economies, avg. growth is projected at 1.5% y/y in 2024 from the estimated 1.5% y/y in 2023.
- ✓ U.S. growth is expected to slow to 2.1% y/y. A further weakening in consumption growth is projected, amid diminished savings, still-elevated borrowing rates, and easing labor market tightness.
- ✓ The Eurozone is expected to grow by 0.9% y/y. Easing price pressures should boost real wages and lift disposable incomes, but the lagged effects of past monetary policy tightening are expected to keep domestic demand low.

Emerging Economies

- ✓ For emerging economies, avg. growth is projected to remain relatively unchanged, from 4.1% y/y in 2023.
- ✓ China's growth is forecast to slow to 4.6% y/y —the slowest expansion in over three decades outside the pandemic-affected years of 2020 to 2022. Subdued sentiment is expected to weigh on consumption, while persistent strains in the property sector will hold back investment.

Note that these average figures hide regional divergences.

Global growth forecast (y/y %)



Sources: IMF, Coronation Merchant Bank Economic Research

Geopolitical Tensions

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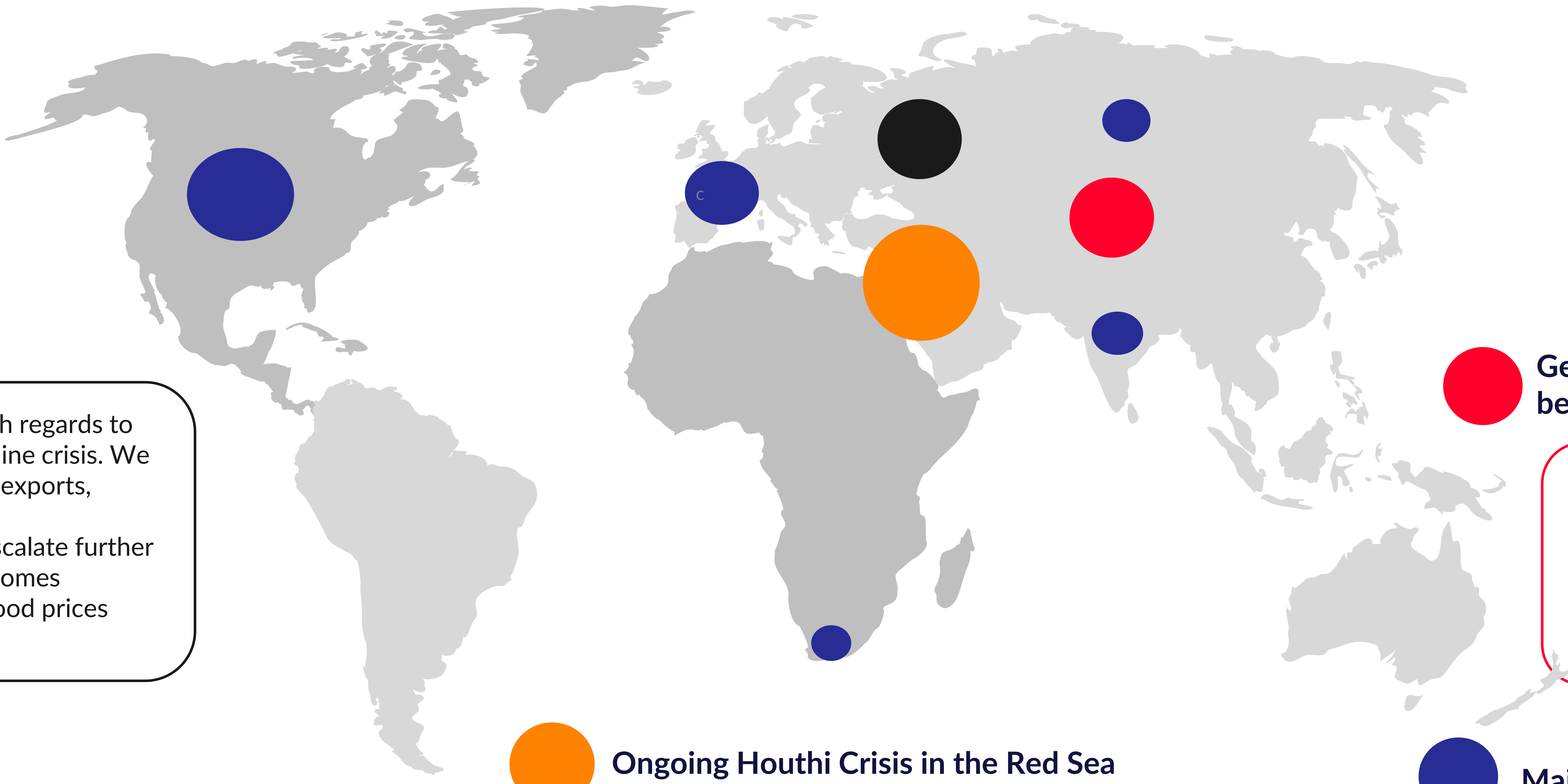

Russia –Ukraine Crisis

- ✓ No clear end in sight with regards to the ongoing Russia-Ukraine crisis. We expect continued grains exports,
- ✓ However, if hostilities escalate further or the Danube River becomes unnavigable, imported food prices could rise in Nigeria.

Geopolitical tensions to remain between China and Taiwan.

- ✓ Taiwan controls 92% of the advanced semiconductors market, a major component for the manufacturing of electronics, automobiles and fighter jets.

Israel-Hamas Conflict

- ✓ There are concerns that the Israel-Palestine conflict could spread beyond Gaza into oil rich countries like the UAE and Saudi Arabia and other major allies.
- ✓ Furthermore, global oil supply could be impacted if Iran closes the Strait of Hormuz, a vital conduit responsible for the transportation of 20% of global oil supply.

Ongoing Houthi Crisis in the Red Sea

- ✓ Iran-backed Houthis have carried out attacks on commercial ships in the Red Sea since November '23.
- ✓ The Red Sea links the Middle East and Asia to Europe via the Suez Canal and its narrow Bab al-Mandeb Strait. Nearly 10% of all oil trade and an estimated USD1trn in goods pass through the strait every year.

Major Economies hold elections

- ✓ Crucial elections would be taking place globally. The outcome from elections in the US, EU, India, Russia, Taiwan and South Africa would impact the global economy.

2023 Review: Commodities – Oil

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1 ▪ On the Demand side, oil price movements over the past year were largely influenced by concerns of low demand from China, US banking sector volatility and the impact of aggressive US interest rate hikes given elevated inflation.

2 ▪ On the supply side, prices were influenced by concerns around supply disruptions due the impact of Hurricane Idalia, the Israel - Hamas conflict. and the 1.2mbpd production cuts announced in April '23 combined with additional voluntary cuts of 1mbpd and 0.3mbpd by Saudi Arabia and Russia.

3 ▪ Furthermore, supply was constrained by underproduction in select OPEC+ countries like Nigeria and Angola However, the U.S. was able to increase production enough to offset most of the impact of OPEC's cuts.

4 ▪ The latest monthly production data from the US Energy Information Administration reveals that oil production in the U.S. increased to 13.3mb/d in November '23 from 13.2mb/d recorded in October '23

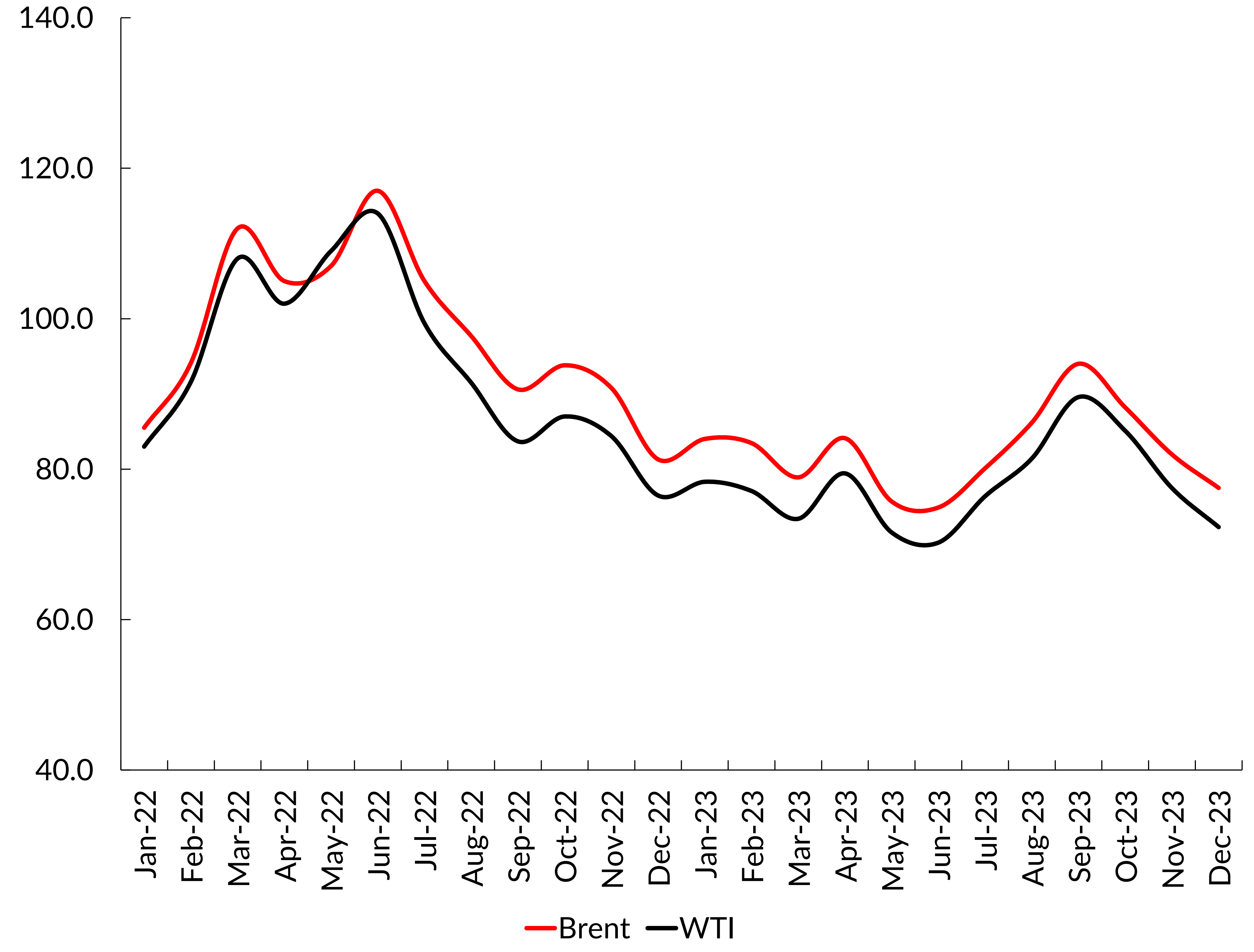
5 ▪ OPEC+ oil production averaged 26.7mb/d in December'23, compared with a target of 39.5mb/d. Oil production increased mainly in Venezuela, Libya and Kuwait, while production in Iraq, Angola and Nigeria decreased.

6 ▪ Western sanctions on Russian crude oil exports have had mixed effects: export flow has remained relatively steady, and its price discount relative to Brent oil has shrunk over time. Russian oil is trading above the USD60 price cap imposed by the Group of Seven (G7) countries

7 ▪ In 2023, UK Brent averaged USD98.5/b, while WTI and Bonny light averaged USD94.2/b and USD104.5/b, respectively.

Commodity	End - 2023 (USD/b)	End– 2022 (USD/b)	End– 2021 (USD/b)
UK Brent	77.4	85.9	77.8
WTI	72.0	80.5	77.5

Avg monthly oil prices Brent and WTI (USD/b)



Sources: Bloomberg, Coronation Merchant Bank Economic Research

2024 Outlook: Commodities – Oil

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For our base case scenario, we currently see oil price average at **USD82/b** for 2024. Some factors that influence our forecast are;

UPWARD TREND

Geopolitical Tension

- Potential spill-over of the ongoing Israel –Hamas conflict
- Ongoing Houthi Crisis in the Red Sea

Production cuts

- Additional voluntary production cuts by Organisation of Petroleum Exporting Countries plus select non-member countries (OPEC+) in Q1 2024.
- Insufficient investment in fossil fuel extraction

DOWNWARD TREND

Increased non -OPEC Production

- Increased supply, on the back of non-OPEC oil production growth led by the US, Brazil, Canada, and Guyana.
- The US shale industry continues to face challenges which may constrain production.

Low Demand Outlook

- A global economic recession
- Worsening demand outlook in China could place downward pressure on oil prices.
- Faster penetration of electric vehicles

Agric-Commodities

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Select Agric-Commodities	End-2023	End-2022	Variance (%)
Wheat (USD/MT)	629.6	386.3	+63.0
Maize (USD/MT)	472.7	302.3	+56.4
Cocoa (USD/MT)	4203.4	2562.0	+64.1
Soyabeans (USD/MT)	1295.7	645.7	+100.7
Sunflower seed (USD/MT)	571.6	1233.8	-53.7

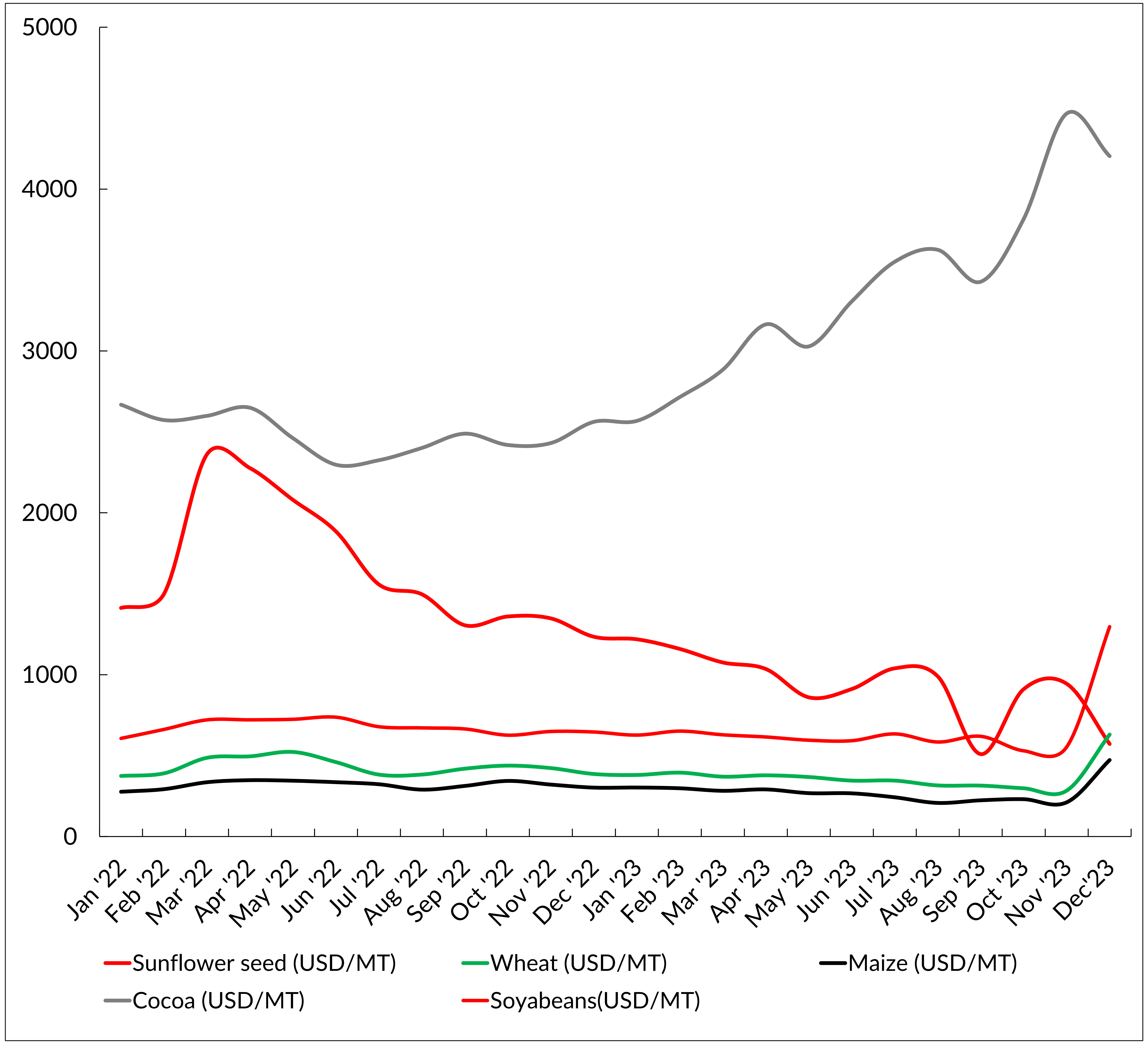
Recent developments

- Prior to the latest conflict in the Middle East, the non-renewal of the Black Sea Grain Initiative, India's export ban of non-basmati rice, and the El Niño weather phenomenon drove volatility in agricultural prices. However, ample supply kept prices on a mild downward trend. As at end-December '23, avg. maize price increased by +56.4% y/y to close at USD472.7/MT.

- For wheat, Russia remains a major supplier alongside other wheat-producing countries such as the US, Australia, Canada. Although Russia's withdrawal has disrupted the Black Sea Grain Initiative, grains have continued to flow out of Ukraine through the Danube River. The price of wheat increased by +63.0% y/y to close at USD629.6/MT due to continuous rainfall limiting farming activities and the

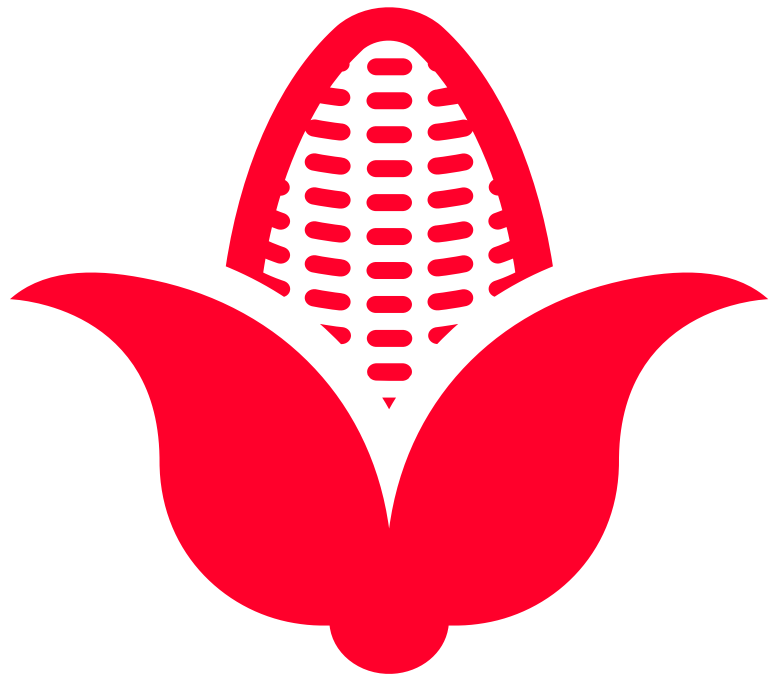
- For cocoa, prices increased by +64.1% y/y spread of diseases in cocoa farms.

Avg monthly prices for select agriculture commodities



Sources: World bank, Coronation Merchant Bank Economic Research

Agric-commodities - Outlook

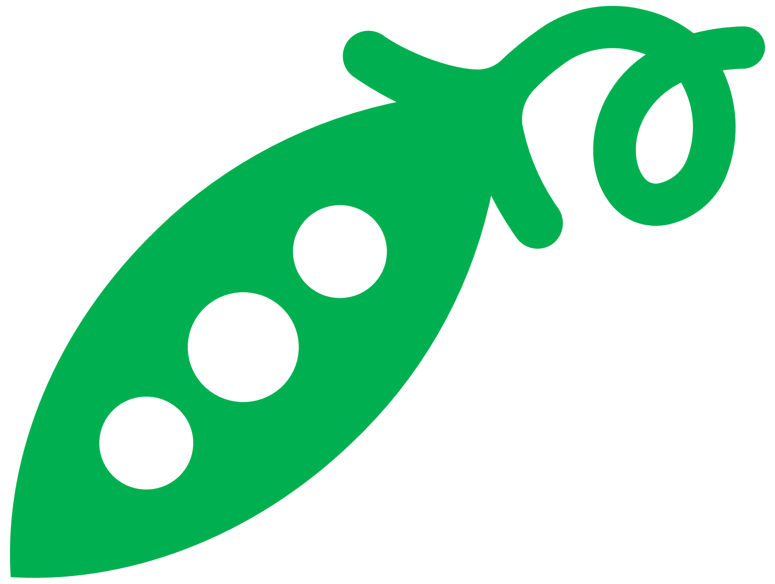


Maize

- The growing demand for maize for both human consumption and industrial sectors will cause maize prices to be elevated in 2024. However, production is expected to improve due to an expansion in cultivated land and enhanced utilization of agricultural inputs.
- For example, fertilizer prices are expected to decline in 2024 as more supply comes online. This will support maize production.

Wheat

- Wheat prices are expected to decline in 2024 due to improving global supply from major producing counties Russia ,US, Australia and Canada.
- Although Russia’s withdrawal has disrupted the Black Sea Grain Initiative, the forecast assumes that grains will continue to flow out of Ukraine. However, if hostilities escalate further or the Danube River becomes unnavigable wheat prices could rise.



Cocoa

- We expect cocoa prices to continue to trend upwards as tight supply continues to persist. In west Africa (notably Ghana and Ivory Coast) due to crop diseases and unfavorable weather conditions which have impacted harvests.

Inflation in Select Economies

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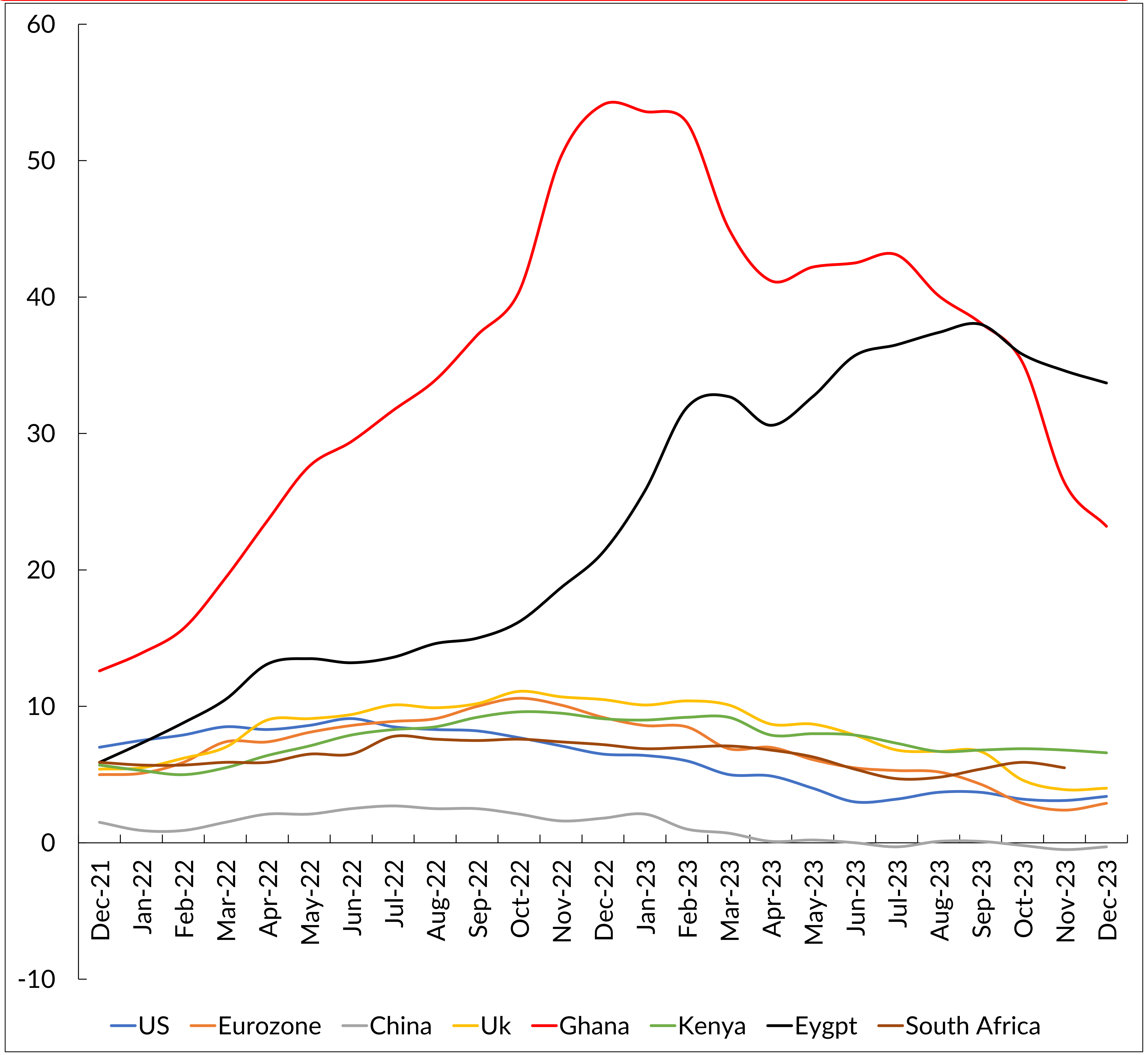
Country/Region	December '23 (y/y)	December '22 (y/y)	Change (bps)
United States	3.4%	6.5%	↓ 310bps
Eurozone	2.4%	9.2%	↓ 630bps
United Kingdom	4.0%	10.5%	↓ 650bps
China	-0.3%	1.8%	↓ 210bps
Ghana	23.2%	54.1%	↓ 3090bps
Egypt	33.7%	21.3%	↑ 1240bps
Kenya	6.6%	9.1%	↓ 250bps
South Africa	5.1%	7.2%	↓ 210bps

- Inflation moderated in most economies due to base effects, improvements in supply chains and decline in specific commodity prices. However, it remains above most central banks' targets. The differences in inflation trends reflects the varying exposures to movements in commodity prices, and currencies.

Outlook

- Global headline inflation is projected to moderate further over 2024-25, with core inflation slowing and commodity prices declining. However, it is likely to remain above its pre-pandemic average. The key factors influencing the projected dip in inflation rates include declines in food and energy prices as well as monetary policy-induced pressure. Significant downsides to this projection include supply chain disruptions at the Red and Black Sea (if the Israel-Hamas conflict escalates and/or a defining factor impacts Russia-Ukraine) as well as unexpected shocks in the oil market.

Inflation in Select Economies (y/y %)



Sources: Eurostat, National Bureau of Statistics of China, U.S. Bureau of Labor Statistics, Ghana Statistical Service, CAPMAS, Kenya National Bureau of Statistics, Statistics South Africa , Coronation Merchant Bank Economic Research

Publ

Monetary Policy Decisions in Select Economies

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The US FED: +100bps to 5.25 – 5.5% in 2023. We suspect a potential rate cut in H1-2024, given the current inflation trend. However, at the latest FOMC meeting, the FED Chair pushed back against market expectations of rate cuts in March '24.

The ECB: +200bps in 2023. The main financing rate, marginal lending facility and deposit facility rate was 4.5,4.75 and 4% respectively. The ECB has pledged to maintain rates at sufficiently restrictive levels for as long as necessary to return inflation to its 2% target.

The BOE : +175bps to 5.25%. The bank has emphasized the necessity for an extended period of restrictive monetary policy to curb inflation.

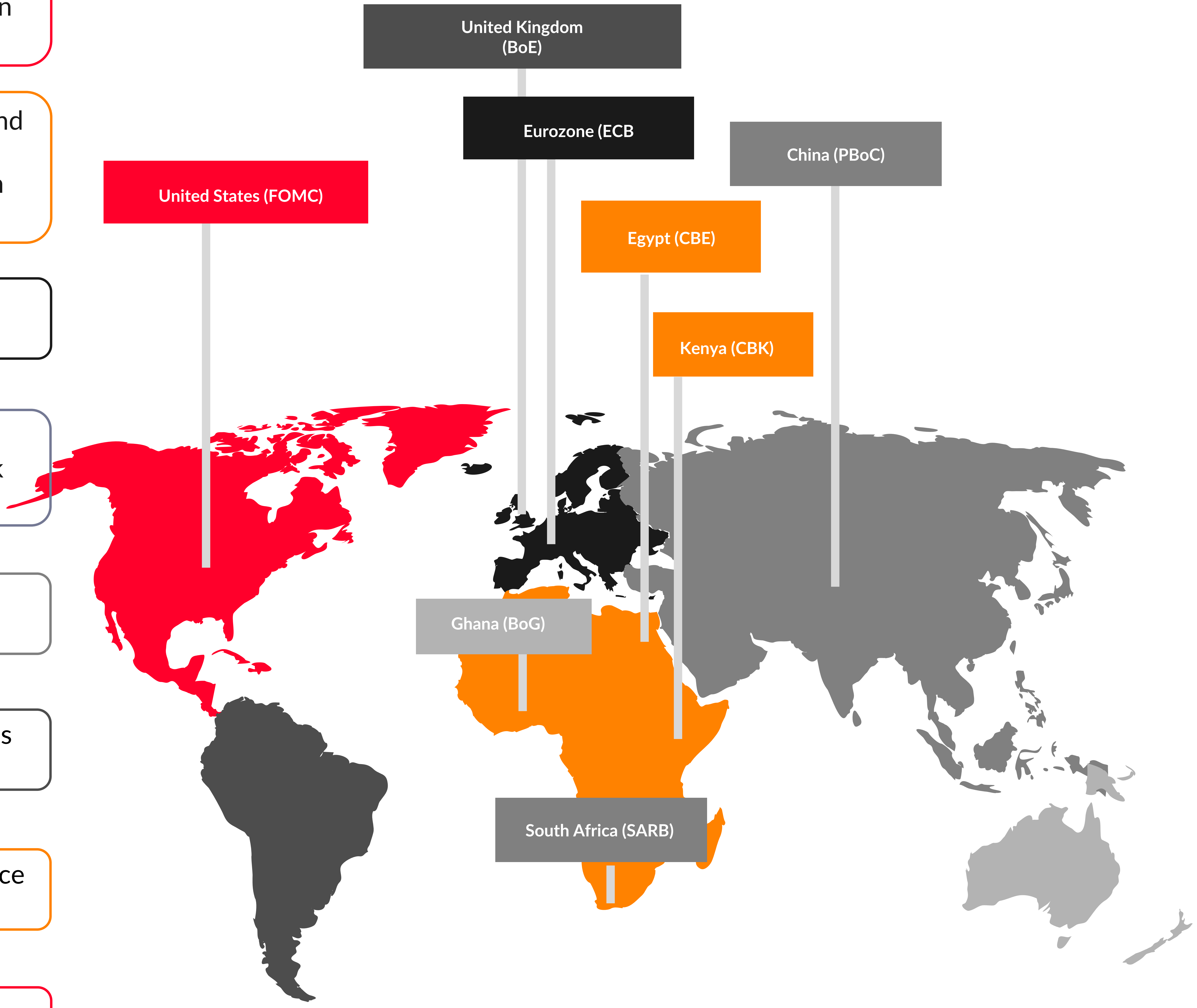
The PBoC : -20bps and -10bps to 3.45% and 4.2% respectively. In 2024, we expect a loosening or a hold stance in the near term as China continues to seek ways to bolster its economy.

The CBK raised its benchmark rate by +375bps in 2023. We expect a hold or tightening stance, as inflation remains above target.

The BoG raised rates by+ 300bps to 30% in 2023 and has indicated that it plans to keep interest rates elevated until inflation is back to the BoG's 6 - 10%

The CBE raised rates by +300bps to 19.25%. For 2024, we expect current stance to continue at least till H2- 2024.

The SARB raised the benchmark rate by +125bps to 8.25%. In 2024, we expect current stance to continue at least in Q1- 2024.

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Macroeconomic Spotlight: SSA Economies

GHANA

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GDP

- Ghana's economy grew by 2.0% y/y in Q3 '23 vs 3.2% y/y in Q2 '23. The slowdown in growth was largely driven by declines in industry sub-sectors like mining and construction. For FY2024, GDP growth is expected to be driven by improved macroeconomic stability given the IMF deal and expected dips in the inflation rate. However, downside risks to growth forecasts include renewed currency depreciation, social unrest and oil price spikes.

INFLATION and MONETARY POLICY

- Inflation declined to 23.2% y/y in December (November: 26.4% y/y). The easing in price pressures was broad-based. In the near term, inflation is expected to remain elevated, largely due to food price shocks, pass-through effects of recently implemented revenue measures (such as income tax, excise duty, as well as the growth and sustainability amendment bills), upward adjustments of utility tariffs, and elevated crude oil price.

- The monetary policy committee for the Bank of Ghana (BoG) at its latest meeting kept its monetary policy rate unchanged at 30%. The latest communiqué was void of explicit forward guidance. However, the BoG indicated that it plans to keep interest rates elevated until inflation is back to the BoG's 6 – 10% target range.

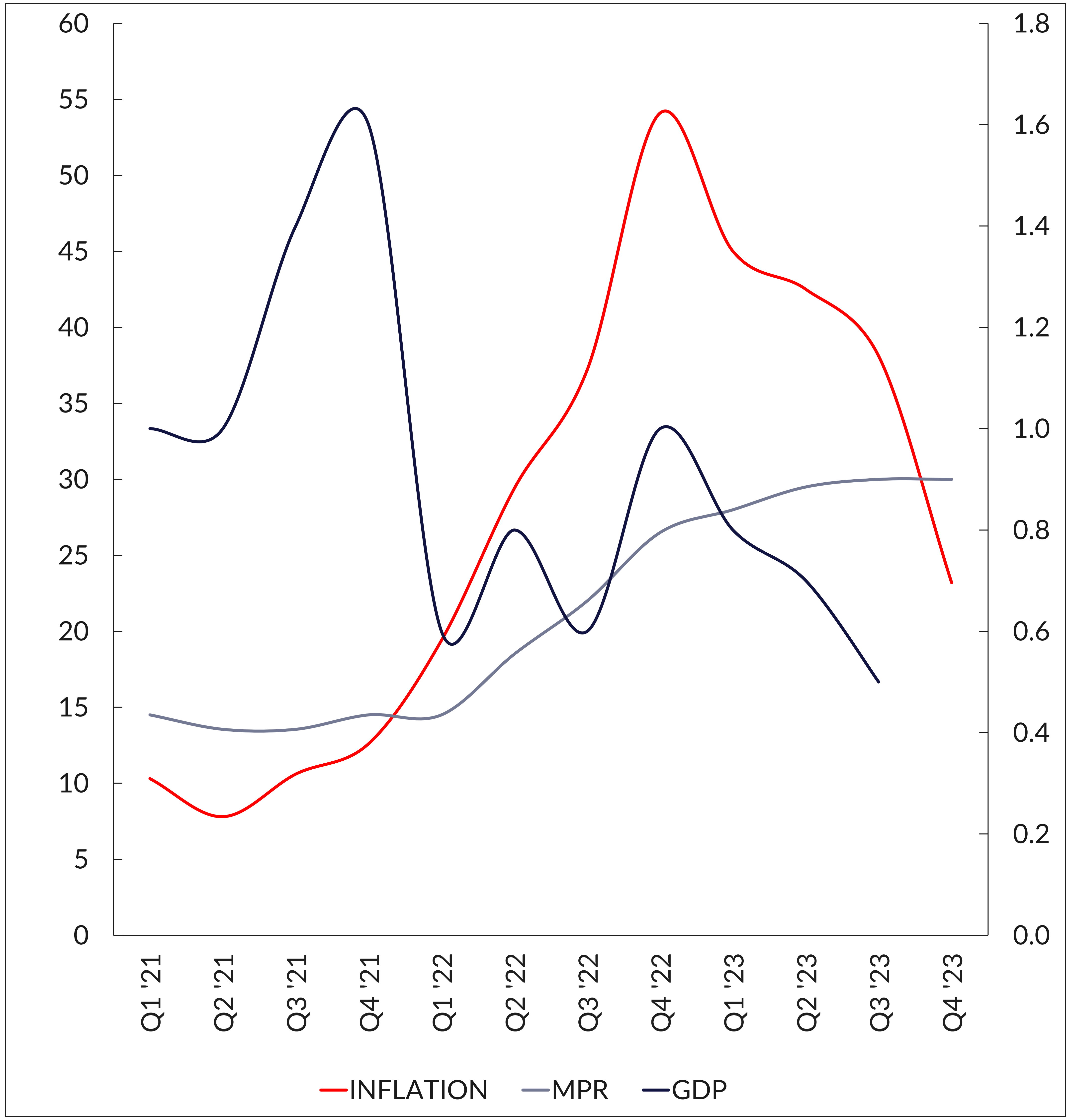
FISCAL POLICY

- The Ghanian government successfully completed its *domestic debt exchange program* in 2023. The participation rate was 84.9% versus the target of 80%. In January '24, Ghana announced a deal with official creditors for a moratorium on interest repayments on USD5.4bn in debt until May '26. This agreement will facilitate the disbursement of USD600m from the IMF and USD550m from the World Bank in the coming months. Additionally, with commercial creditors, extensive negotiations are currently ongoing.

EXTERNAL RESERVES AND CURRENCY

- As at end-August '23, gross external reserves stood at USD5.1bn versus the USD6.2bn recorded in December '22. Furthermore, the Ghana Cedi depreciated by -19% from GHS9.9/USD to GHS11.9/USD.

GDP, Inflation (y/y%) and MPR (%)



Sources: Ghana Statistical Service, Coronation Merchant Bank Economic Research

KENYA

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GDP

- Kenya's economy grew by 5.9% y/y in Q3 '23 vs 5.5% y/y in Q2 '23. This was largely driven by agriculture, manufacturing, finance and insurance, ICT as well as accommodation and food services sectors. For 2024, GDP growth is expected to edge up slightly driven by stronger private sector spending. However, growth in exports and government spending is expected to slow. Renewed drought, higher than-expected oil prices and the possibility of a default are downside risks.

INFLATION and MONETARY POLICY

- Inflation eased to 6.6% y/y in December (November: 6.8% y/y), driven by softer food price pressures. Average inflation is expected to remain around its current level in 2024. Upside risks include additional extreme weather events, a spike in oil prices and further currency depreciation.
- At its meeting in December '23, the Central Bank of Kenya increased its policy rate by +200bps from 10.50% to 12.50%. This was the largest increase since 2011 and surprised markets. Looking ahead, we expect a hold or tightening stance, as inflation remains above target.

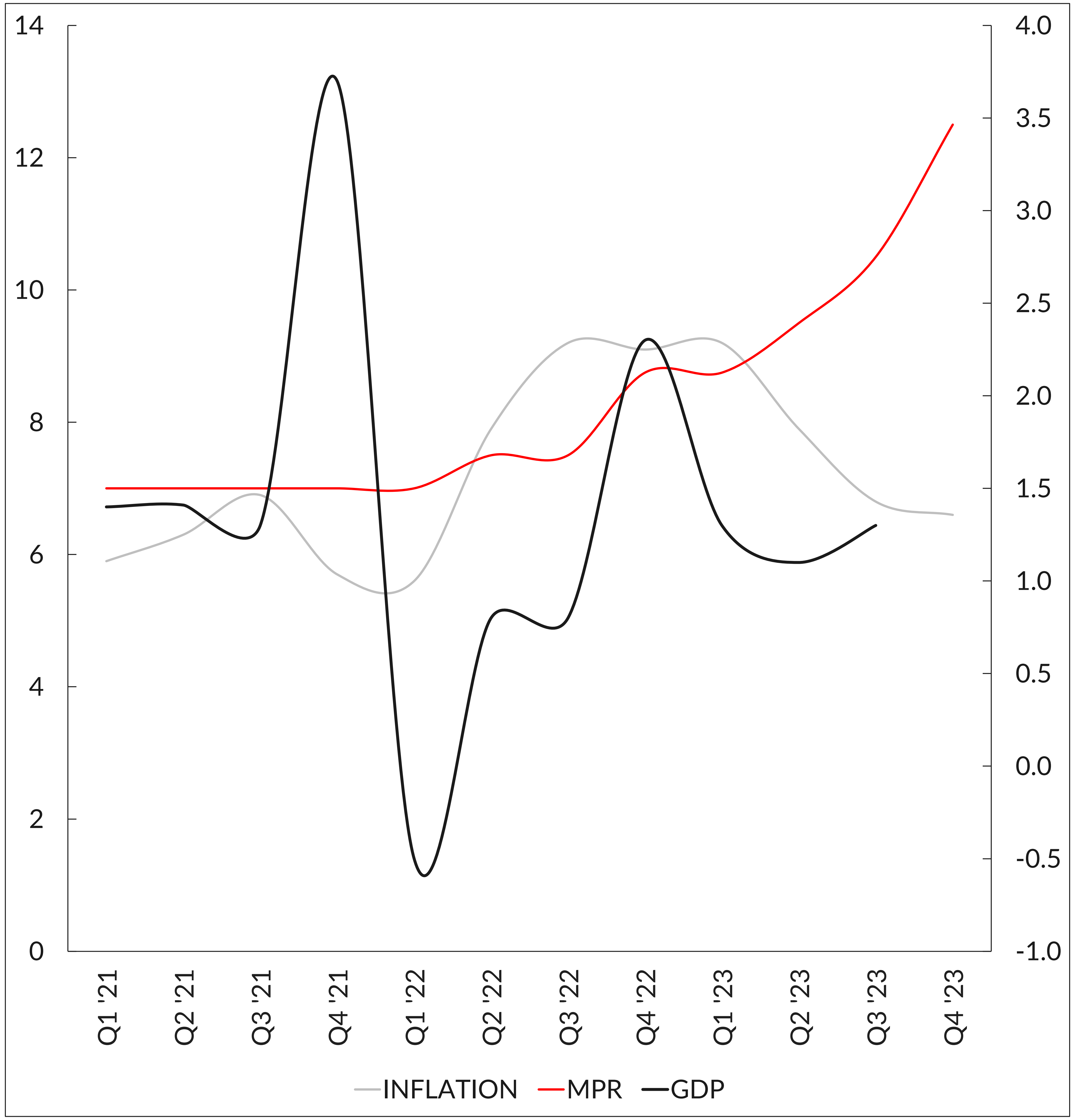
FISCAL POLICY

- Kenya's inability to access international markets in recent years has increased its reliance on domestic financing, putting upward pressure on domestic interest rates. However, near-term domestic liquidity pressures seem to have eased slightly due to a USD1bn World Bank loan disbursed in May '23, and the issuance of long-dated bonds (including a seven-year infrastructure bond) in June '23.
- External debt service (amortisation and interest) is expected to rise in 2024, largely on the back of the USD2bn Eurobond repayment due in June 2024. However, we expect the government to meet its financing obligations through a combination of official lending, syndicated loans and a drawdown in reserves.

EXTERNAL RESERVES AND CURRENCY

- Gross foreign reserves increased by 22% from USD11.4bn in December '22 to USD13.9bn in as at end-October '23. Furthermore, the Kenyan Shilling depreciated by -27% from KES123.3/USD to KES156.5/USD.

GDP, Inflation (y/y%) and MPR (%)



Sources: , Kenya National Bureau of Statistics,, Coronation Merchant Bank Economic Research

EGYPT

GDP

- Egypt's's economy grew by 2.6% y/y in Q3 '23, compared with 2.9% y/y in Q2 '23. The weakest since Q4 20. Egypt's proximity to the Israel-Hamas conflict, and the potential influx of refugees, increases security risk, especially in the Sinai region. We believe the impact of persistent high inflation on living standards will be sizable and difficult to reverse, despite government's efforts. Social tensions have remained contained so far, but the risk of political instability lingers given structural issues, including weaknesses in governance and high youth unemployment.

INFLATION & MONETARY POLICY

- Inflation moderated to 33.7% in December (November: 34.6%). The reduction in price pressures was influenced by a slowdown in food inflation, housing and utilities, furnishings, household equipment, health as well as miscellaneous goods and services. In the near term, inflation is expected to remain elevated, largely due to structural issues.

- The Central Bank of Egypt raised rates by +300bps to 19.25% in 2023. At its latest meeting, its overnight deposit and lending rates were left unchanged at 19.25% and 20.25%, respectively. Given that inflation remains above the bank's target range of 5 - 9%, we expect the central bank to hike both rates in coming meetings.

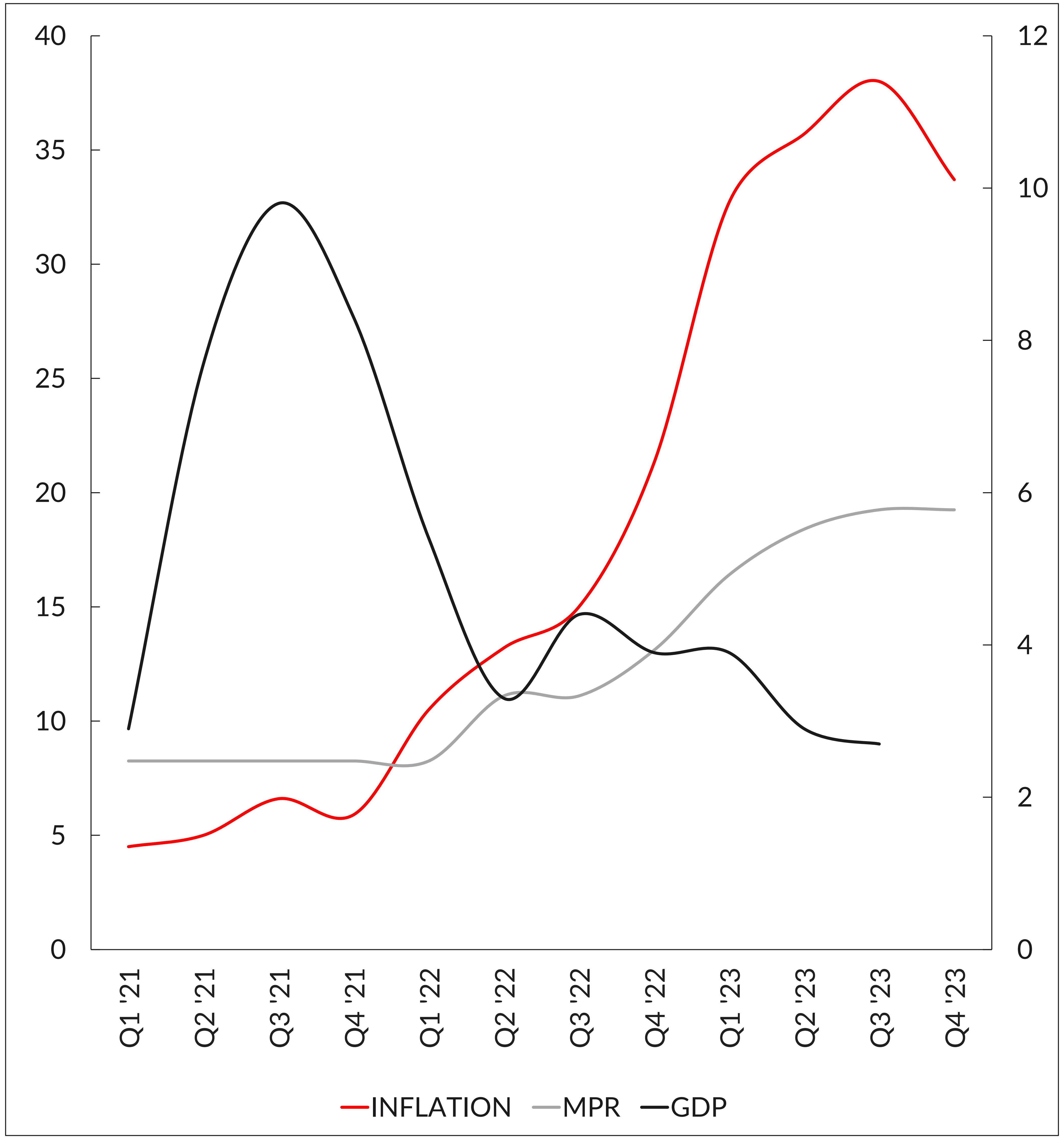
FISCAL POLICY

- The government will face a significant rise in external debt maturities to USD8.8bn in 2024 from USD4.3bn in FY2023. The government is at advanced stages to receive USD1.5bn backed by guarantees from multilaterals, in addition to c.USD4bn direct financing from official partners, including the IMF. Another sukuk issuance by the government remains a possibility in FY2024..

EXTERNAL RESERVES AND CURRENCY

- Gross reserves increased by +2.6% y/y to USD35.2bn as at end-December '23 from USD34.2bn recorded in December '22. During this period, the Egyptian Pound depreciated by -19% from EGP25.9/USD to EGP30.8/USD.

GDP, Inflation (y/y%) and MPR (%)



Sources: CAPMAS, Coronation Merchant Bank Economic Research

SOUTH AFRICA

GDP

- South Africa's economy contracted by -0.7% y/y in Q3 '23, compared with a growth of +1.5% y/y in Q2 '23. The contraction can be largely attributed to persistent power shortages and logistics constraints. In 2024, issues like insecurity, corruption, high unemployment, and ongoing energy and logistics challenges are expected to have a tight grip on the country's economic vitality.

INFLATION and MONETARY POLICY

- Inflation moderated to 5.1% in December '23 (November: 5.5%), moving closer to 4.5%. This is the mid-point of the 3.0 – 6.0% target band of the South African Reserve Bank (SARB). Inflation is expected to moderate in 2024. However, inflationary pressure is expected from a relatively weak rand, the cost of load-shedding for businesses, and from supply chain disruptions,

- Upward pressure on inflation will be cushioned by South Africa Reserve Bank (SARB)'s relatively hawkish monetary policy stance. At its last meeting, SARB kept its key interest rate unchanged at 8.25% and disclosed that future interest rate decisions will depend on the data available during MPC meetings.

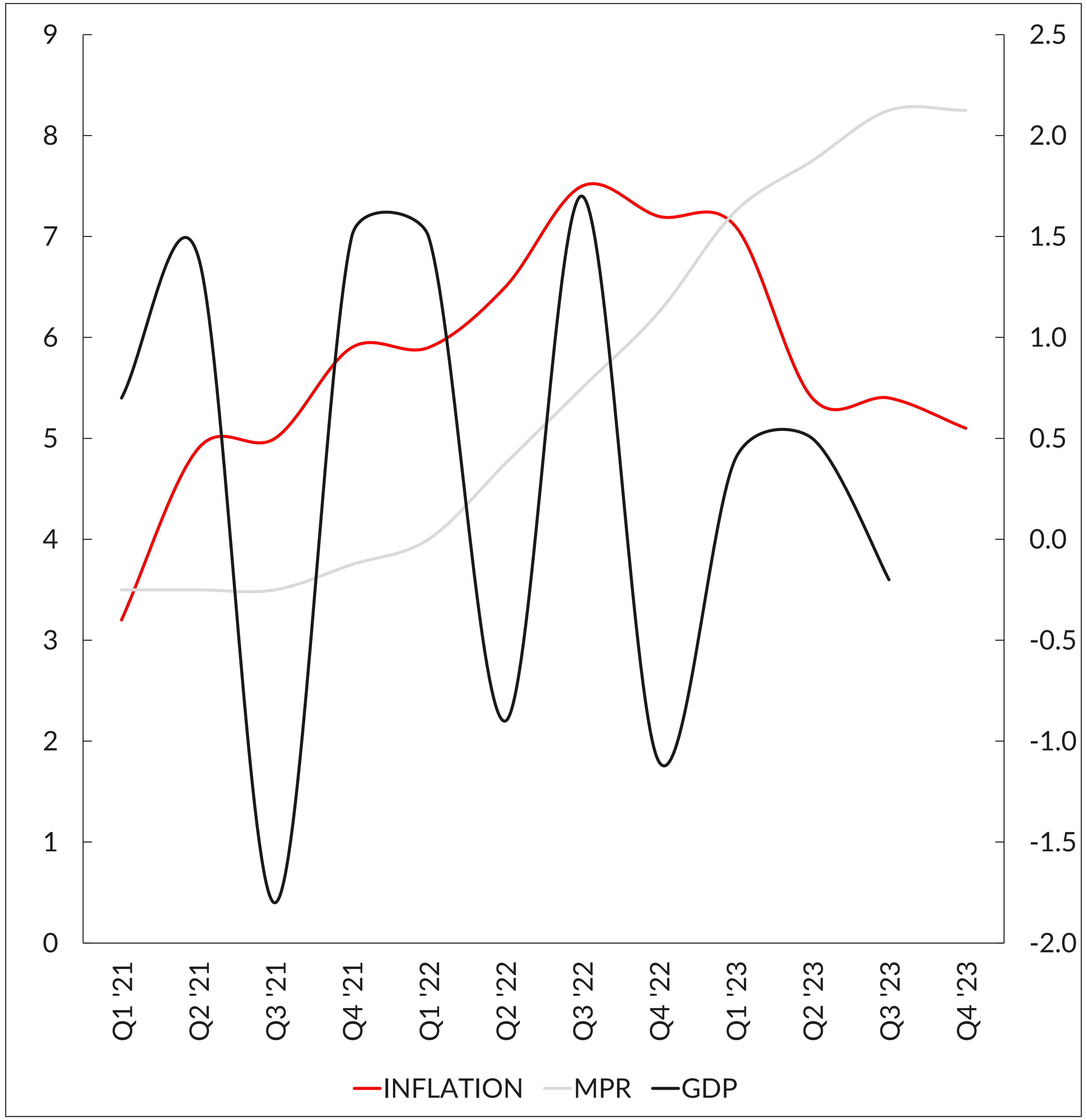
FISCAL POLICY

- We expect a widening of the consolidated fiscal deficit, driven by an erosion of revenue collection hampered by low real GDP growth, low corporate profitability and upward expenditure pressure. The consolidated budget deficit will remain substantial reflecting further payroll increases, and high social spending. Fiscal flexibility is expected to reduce with a growing share of expenditure channeled towards wage bill and interest payments. To manage debt accumulation, we understand that the government plans to present a new fiscal anchor in the FY2024 fiscal bill by February '24.

EXTERNAL RESERVES AND CURRENCY

- Gross reserves increased by +1.1% from USD61.8bn in December '22 to USD62.5bn at end-December '23. During this period, the South African Rand depreciated by -18% from ZAR15.8/USD to ZAR18.7/USD.

GDP, Inflation (y/y%) and MPR (%)



Sources: National Bureau of Statistics, South Africa , Coronation Merchant Bank Economic Research

NIGERIA: DOMESTIC ECONOMY

CORONATION

Drivers of the Economy

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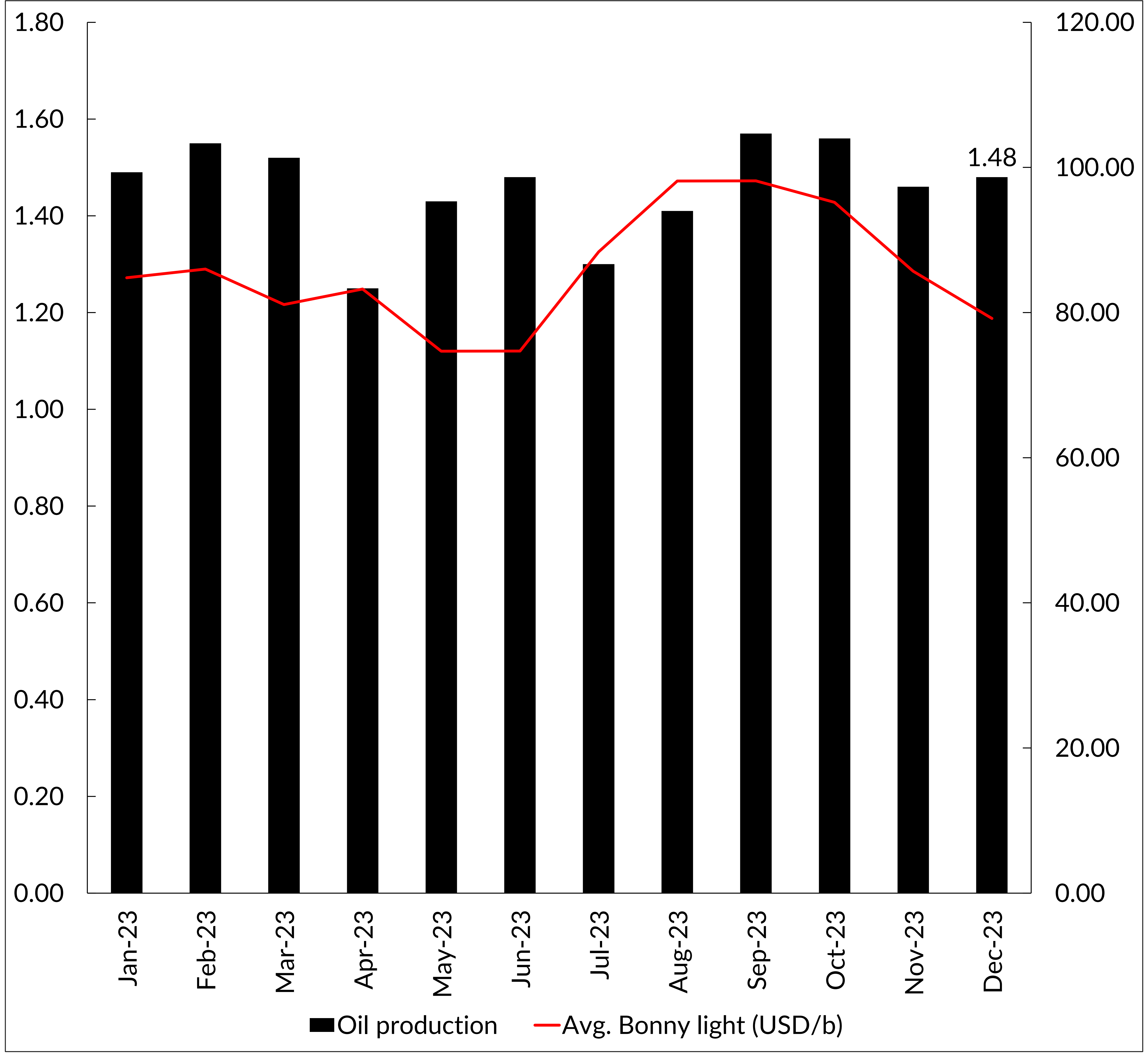
	End-2023	End-2022	Variance
Bonny Light (USD/b)	80.9	82.6	-2.1%
Oil Production (mbpd)	1.47	1.41	4.3%

Latest Developments

- Data from the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) showed that crude oil production increased significantly across the Bonny (+405.0% y/y), Brass (+179.3% y/y), Forcados (+212.4% y/y), Bonga (+25.0% y/y), Escravos (+19.9% y/y), and Odudu (+16.3% y/y) production terminals in Q3 ‘23.
- We attribute the oil production performance to the FGN’s unrelenting fight against oil theft and the resumption of activities in previously shutdown terminals.
- The oil sector contracted at its lowest level since Q2 ‘20 (-6.63% y/y), declining mildly by -0.85% y/y in Q3 ‘23 (from Q2’23: -13.43% y/y). Notwithstanding, we highlight that the oil sector performance in Q3 ‘23 is still in negative terrain, reflecting underlying factors
- Risks to oil production in 2024 include operational distortions and OPEC production cuts, even as Nigeria and Angola resist attempts to cut oil output further.

Av. Bonny Light (USD/b) vs Oil production (mbpd)



Sources: CBN, Coronation Merchant Bank Economic Research

GDP - 2023

CORONATION

Indicator	2023 - (% change; y/y)				
	Q1	Q2	Q3	Q4	FY 2023
Real GDP growth	2.3%	2.51%	2.54%	3.46	2.74
OIL	-4.21	-13.4	-0.85	12.11	-2.22
NON- OIL	2.77	3.58	2.75	3.07	3.04

- GDP grew by +3.46% y/y compared with the +2.54% y/y recorded in Q3 '23. Surprisingly, on a q/q basis it grew by +36.2%. For FY2023, GDP grew by 2.74%, which is just 14bps higher than our projection of 2.6% y/y but lower than 3.1% recorded in the previous year (2022). The slower growth reflects macroeconomic headwinds experienced in 2023.
- The oil economy grew by 12.1% y/y in Q4 '23. Over the past 14 quarters (i.e., 3+ years), the oil sector has posted contractions. This recorded growth can be partly hinged on relatively better production levels. However, on a q/q basis, it contracted by -3.8% y/y. Based on data from the NURPC, average crude oil production in Q4 '23 was 1.52mbpd compared with 1.43mbpd recorded in the previous quarter.
- The non-oil economy grew by 3.1% y/y in Q4 '23 compared with 2.75% y/y recorded in Q3 '23. Key drivers within the non-oil economy include finance and insurance (29.8% y/y), telecoms (6.9% y/y), construction (3.7% y/y), real estate (1.3% y/y), agriculture (2.1% y/y) and trade (1.4% y/y), Combined, these sectors accounted for 70% of total GDP in Q4 '23.

Real GDP vs oil vs Non-oil (% change; y/y)

Public Sources: NBS, Coronation Merchant Bank Economic Research

SECTOR WATCHLIST

SECTOR WATCHLIST

CORONATION

- ✓ The non-oil sector emerges as a pivotal force with the potential to substantially propel Nigeria's overall GDP growth. Despite the persistent discourse on economic diversification, the country has not fully harnessed the opportunities embedded within the non-oil economy.
- ✓ In Q4 ‘23, non-oil GDP growth stood at 3.07% y/y. Leveraging the comprehensive national accounts data released by the NBS, we have meticulously delineated sectors within the non-oil economy into categories of resilient and unstable.
- ✓ Sectors and segments that demonstrated consistent quarterly growth over approximately 4 to 5 quarters have been judiciously classified as resilient. Conversely, those unable to sustain growth momentum throughout the past five quarters find themselves categorized as unstable.
- ✓ 13 sectors were resilient in Q4 ’23 , compared with 12 in Q3 23.The resilience in these sectors can be partly attributed to positive base effects. The resilient sectors contributed 53.2% to total GDP in Q4 ‘23 compared to 64.3% in Q3 ’23
- ✓ 4 sectors were unstable in Q4 ’23, The unstable sectors contributed 29.5% to total GDP in Q3 ‘23 compared to 40.5% in Q3 ‘23

RESILIENT	Q4 ’22	Q1 ‘23	Q2 ’23	Q3 ‘23	Q4 ’23
Water Supply and Waste Management	↑8.8	↑5.6	↑20.7	↑11.9	↑7.4
Construction	↑3.8	↑3.3	↑3.4	↑3.8	↑3.7
Trade	↑4.5	↑1.3	↑2.4	↑1.5	↑1.4
Accommodation and Food services	↑4.2	↑3.6	↑3.4	↑3.5	↑3.3
ICT	↑9.8	↑10.3	↑8.6	↑6.6	↑6.3
Arts, Entertainment and Recreation	↑4.3	↑5.5	↑2.5	↑4.4	↑4.1
Finance and Insurance	↑11.6	↑21.4	↑26.8	↑28.2	↑29.8
Real Estate	↑2.8	↑1.7	↑1.9	↑1.9	↑1.3
P. Scientific and technical services	↑2.9	↑3.1	↑2.9	↑2.1	↑1.8
Public Administration	↑1.4	↑2.0	↑2.2	↑2.0	↑2.2
Education	↑1.2	↑0.7	↑1.4	↑1.4	↑1.6
Human Health and Social Services	↑4.2	↑2.46	↑1.95	↑2.9	↑3.7
Manufacturing	↑15.2	↑1.6	↑2.2	↑0.4	↑1.4
% Contribution to GDP	70.8	57.7	58.2	53.2	64.3

UNSTABLE	Q4 ’22	Q1 ’23	Q2 ‘23	Q3 ‘23	Q4 ‘23
Agriculture	↑2.1	↓-0.9	↑1.5	↑1.3	↑2.1
Administrative and support services	↑2.9	↓-4.6	↑1.9	↑2.7	↑1.6
Mining and Quarrying	↑22.0	↑37.7	↑31.9	↓-1.9	↑8.0
Other Services	↑13.8	↓-20.1	↑1.7	↑0.6	↑0.1
% Contribution to GDP	38.9	35.4	37.0	40.5	29.5

Sources: NBS, Coronation Merchant Bank Economic Research

GDP – FY2024 Outlook, Nigeria

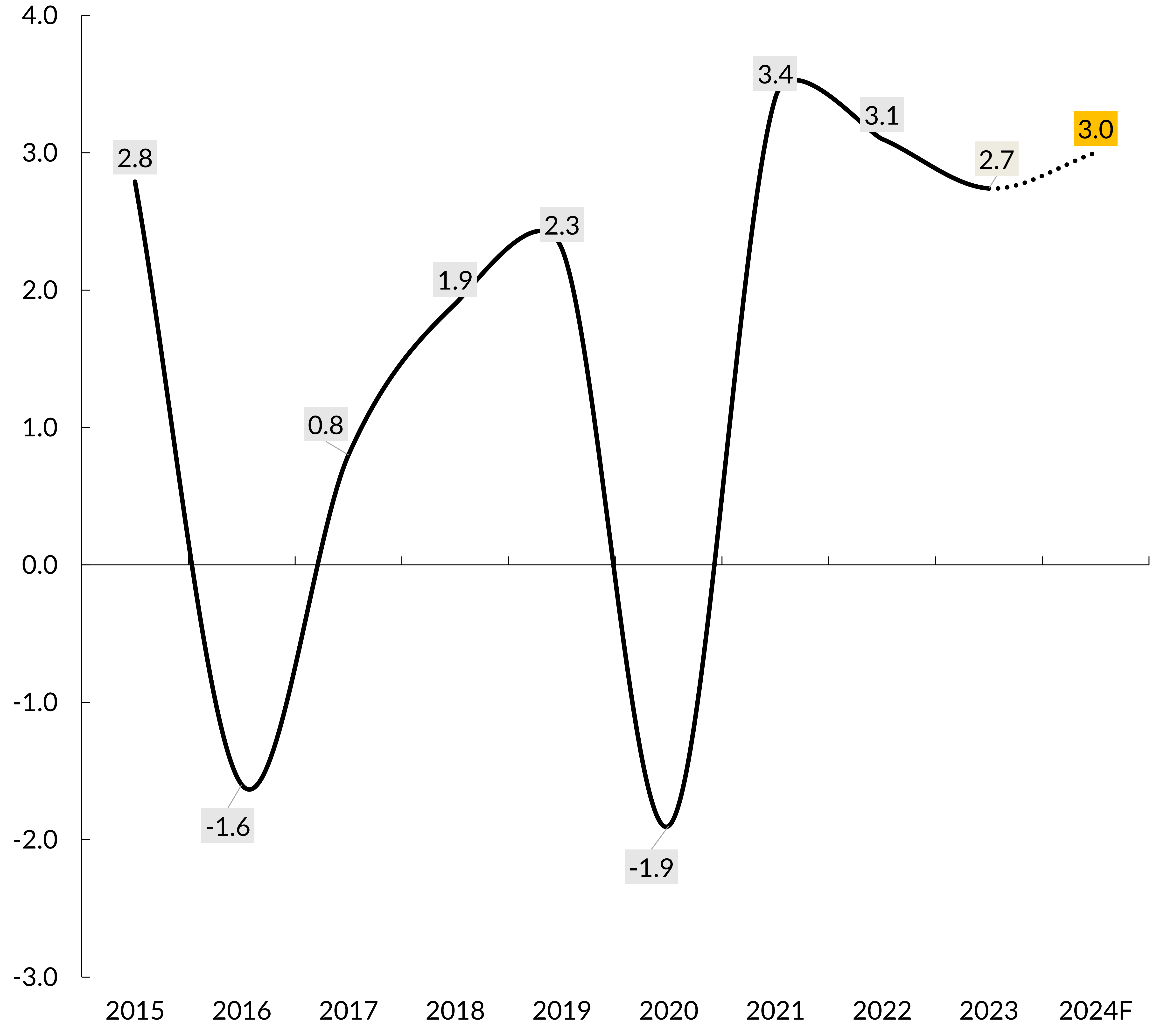
CORONATION

Indicator	BASE CASE
GDP growth	3.0% y/y

Justification

- ✓ In H1 2024, we see mild growth , Q1 should post sluggish growth. However, a slight pickup is expected in Q2, but this is dependent on positive policy impact targeted at fx liquidity, supply chain activities and consumer demand patterns, among others.
- ✓ The impending growth is primarily rooted in the non-oil sector, as domestic crude oil production remains subdued: Sectors such as finance and insurance, telecoms, construction, and trade are expected to feature as primary drivers of non-oil economic growth.
- ✓ The agriculture sector plays a crucial role in Nigeria's economic performance. An average of 5% y/y is obtainable, only if well-targeted policies are implemented.
- ✓ Transmission effect of foreign exchange depreciation on business activities: fluctuations in currency value have a cascading impact on various sectors, influencing costs, pricing strategies, and overall competitiveness.
- ✓ The expansionary budget can set off a multiplier effect and trigger job creation, consumer confidence might improve, leading to increased purchases of goods and services.

Real GDP (% change; y/y)



Sources: NBS, Coronation Merchant Bank Economic Research

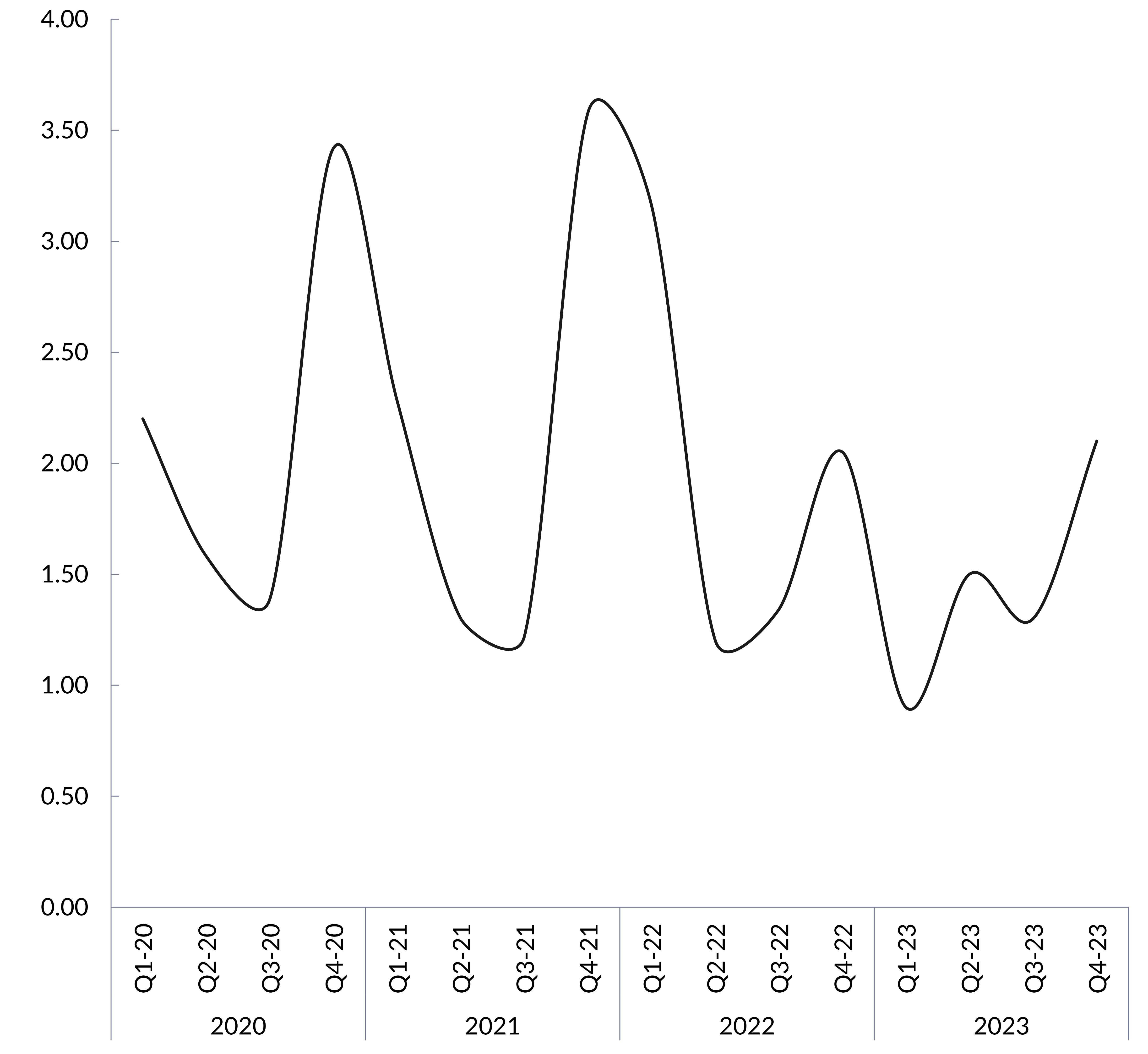
Harvesting Growth: Nigeria's Agricultural Dynamics

Harvesting Growth: Nigeria's Agricultural Dynamics

CORONATION

- ✓ Over the past ten quarters, the agriculture sector has experienced an average growth of 1.7% y/y, contributing c.25% to the total GDP. The latest data from the NBS indicates a growth of 2.1% y/y in Q4 '22 and 1.13% y/y for FY 2023. Crop production continues to dominate agriculture GDP, accounting for 91.4%, while livestock, forestry, and fishing contributed 5.9%, 1.0%, and 2.0%, respectively, in 2023
- ✓ Despite being an agrarian country, industry sources suggest that Nigeria's cumulative agricultural imports in the past five years (i.e., since 2019) stood at NGN6.7trn.
- ✓ The country's reliance on agricultural imports has doubled since 2019 despite government efforts to promote domestic agriculture. While agriculture's share in Nigeria's total export earnings remains low (2.1%) compared to crude oil (82.5%), there is considerable potential for growth. Sustainable public-private partnerships can enhance agro-related exports, diversify foreign exchange revenue, and support overall GDP growth.
- ✓ The Africa Continental Free Trade Area (AfCFTA) agreement is expected to boost agricultural activity, creating new regional markets for farmers and strengthening the agro-value chain. However, increased focus on value chain interventions, especially in areas of comparative and competitive advantage, is crucial.
- ✓ Climate change poses challenges to Nigeria's agriculture, affecting farmers practicing rain-fed agriculture and leading to vulnerabilities like desertification, drought, and flooding. There were incidents of flooding that impacted food supply and exacerbated inflationary pressures in 2022.
- ✓ Structural challenges, including poor storage facilities, inadequate transport networks, and low technology adoption continue to hinder investments in the sector. Furthermore, a significant number of farmers, being in rural areas, are unbanked, contributing to difficulties in accessing funds.

Agriculture growth rate (% change y/y)



Sources: NBS, Coronation Merchant Bank Economic Research

Harvesting Growth: Nigeria's Agricultural Dynamics

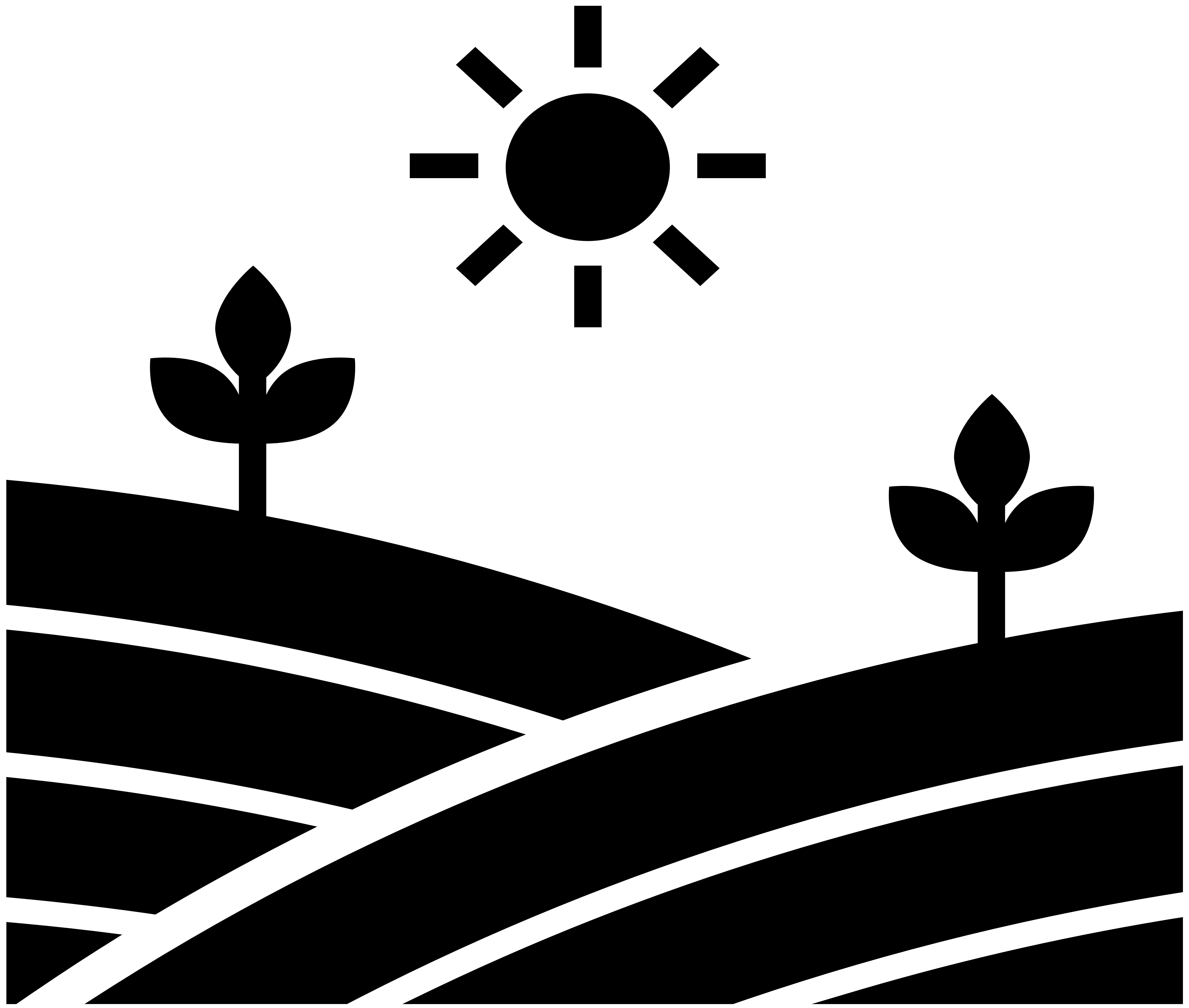
CORONATION

- ✓ Prior to H2 2023, the CBN had implemented credit interventions, such as the Anchor Borrowers Program and the Commercial Agriculture Credit Scheme, aimed at supporting small-scale farmers and financing large-scale agricultural projects. However, challenges like high loan default rates, insecurity, and corruption partly led to temporary suspensions in loan disbursements.

- ✓ The livestock sector faces challenges which the National Animal Identification and Traceability System under the National Livestock Transformation Plan are keen on tackling. The underdeveloped animal feed sector contributes to high production costs. To put this in context, feedstock accounts for c.70% of the operational costs for poultry and aquaculture farming.

- ✓ Certain agricultural segments, including rice, wheat, fish, and livestock, have recorded progress due to intervention schemes. Efforts such as the Presidential Fertiliser Initiative and increased functional blending plants aim to enhance fertilizer production.

- ✓ The FGN disclosed that it had achieved production of c.60 million 50kg bags of fertilizer under the Presidential Fertiliser Initiative (PFI), a programme that was inaugurated in 2016. We also understand that the number of functional blending plants in the country is 70 as at end-2023 from 24 recorded in 2019.



Harvesting Growth: Nigeria's Agricultural Dynamics

CORONATION

Strategic interventions are imperative to propel agriculture to significantly contributing to the country's economic progress. Below are few considerations:

Embracing Technological Advancements and Mechanization

- The adoption of modern farming technologies and the mechanization of agricultural processes emerge as linchpins for efficiency and heightened productivity. The shift from outdated methods becomes crucial for meeting the demands of a growing population and ensuring food security.

Enhancing Financial Inclusion and Access to Credit

- Empowering farmers through financial inclusion and access to credit will support sectoral growth. Enabling farmers to invest in their operations and adopt modern practices contributes significantly to the sector's overall vibrancy.

Quality Enhancement Initiatives

- To position Nigerian agricultural products on the global stage, initiatives focused on elevating quality standards are imperative. Addressing concerns related to packaging, chemical content, labeling, and nutritional information is pivotal for meeting international benchmarks.

Enabling Government Policies

- An enabling policy environment that fosters growth, streamlines regulations, and provides consistent incentives is pivotal. Confidence in the sector can be bolstered through supportive government policies that prioritize the needs of farmers and investors alike.

Strengthening the Entire Value Chain.

- A resilient and competitive agricultural sector necessitates comprehensive interventions across the entire value chain. Identifying and leveraging areas where Nigeria holds a comparative advantage will fortify the sector's capabilities and market competitiveness

Facilitating Market Access and Export Promotion:

- Creating avenues for both domestic and international market access is paramount. Leveraging the opportunities presented by the Africa Continental Free Trade Area (AfCFTA) can open new regional markets, while enhancing the competitiveness of exports on the global stage.

Infrastructure Development

- Critical to the sector's growth is the rectification of infrastructure gaps, especially in areas such as storage facilities and transport networks. Strategic investments in infrastructure will streamline operations and enhance the overall efficiency of the agricultural value chain.

Capacity Building and Sensitization:

- Investing in comprehensive capacity building programs enhances the skills of farmers and stakeholders. Sensitization programs create awareness about best practices, sustainable farming methods, and the myriad benefits of embracing technological advancements.

Byte by Byte: Navigating Nigeria's Tech Landscape

Byte by Byte: Navigating Nigeria's Tech Landscape

CORONATION

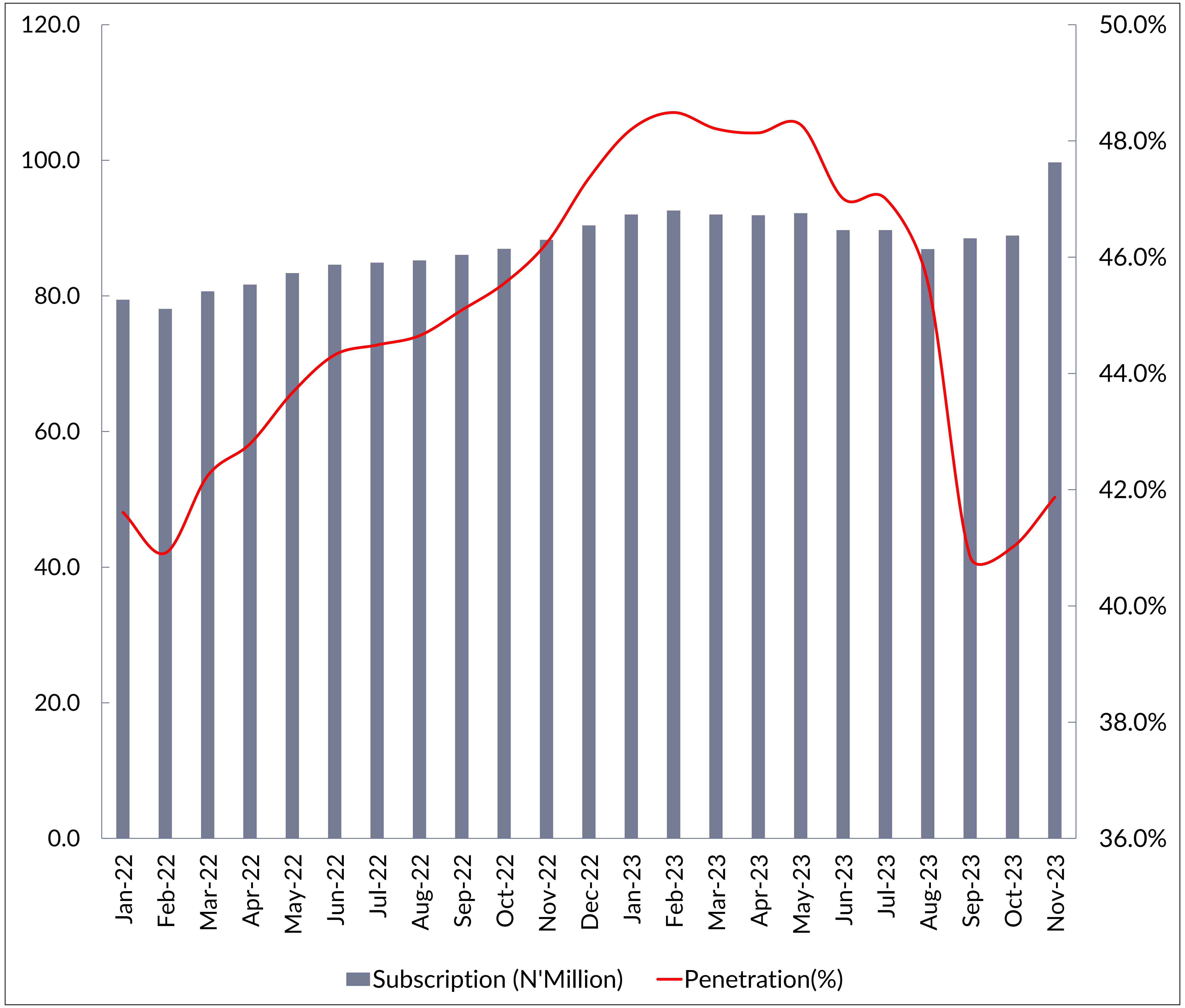
- ✓ Industry sources suggest that a 10% increase in broadband penetration can increase the GDP of an economy by 1.6 – 1.8%. According to the latest data from the Nigerian Communications Commission (NCC), broadband penetration in Nigeria currently stands at 41.9%, showing commendable progress from the 39.9% reported in June 2023.

- ✓ The national broadband plan, a strategic roadmap, envisions delivering high-speed data access with a minimum download speed of 25Mbps in urban areas and 10Mbps in rural areas. The goal is ambitious but attainable, requiring strategic investments and targeted interventions.

- ✓ However, the journey towards pervasive broadband faces persistent hurdles. Challenges such as erratic power supply, inadequate ICT infrastructure, data costs, and exorbitant right-of-way (RoW) fees impede the seamless spread of broadband services. While the Nigerian governors' forum resolved on a RoW fee of N145 per linear meter of fibre in 2020, the implementation across states remains inconsistent. Notably, only a handful of states, including Kaduna, Ekiti, Katsina, Plateau, Kwara, Imo, and Anambra, have embraced the new fee structure.

- ✓ The Federal Capital Territory (FCT) is considering a substantial reduction in RoW charges, a promising move to stimulate broadband deployment, particularly in rural areas. The absence of a standardized RoW fee remains a bottleneck in fostering nationwide broadband expansion.

Broadband subscription/penetration data (Jan '22 – Nov '23)



Sources: NCC, Coronation Merchant Bank Economic Research

CORONATION

1

- ✓ The launch of 5G spectrum services is poised to revolutionize the broadband landscape, offering unprecedented opportunities in education, agriculture, finance, transportation, commerce, and healthcare.

2

- ✓ In December 2022, Airtel NG secured the third 5G spectrum license through an auction conducted by the NCC, augmenting the licenses awarded to MTN and Mafab Communications in 2021.
- ✓ MTN, the pioneer, initiated the commercial rollout of 5G in September 2022, with Mafab slated for a January 2023 launch, following some delays.

3

- ✓ In January 2023, Airtel acquired a 5G spectrum and additional spectrum for its 4G network for USD316.7m from the NCC.
- ✓ The 5G network will utilize the 3.5GHz spectrum for faster speeds and lower latency, while 2600MHz spectrum will boost network capacity, providing improved connectivity and user experiences.

4

- ✓ Globally, the deployment of commercial 5G networks is on the rise, with at least ten African countries witnessing launches by prominent telecom operators in 2022.
- ✓ Noteworthy launches include Orange Botswana and MTN Zambia, Safaricom Kenya, and Telkom South Africa, as well as Vodacom Tanzania, and Econet Zimbabwe.

Byte by Byte: Navigating Nigeria's Tech Landscape

CORONATION

- ✓ The e-commerce landscape in Nigeria, boasts at least 87 active platforms. Despite this, the sector remains largely untapped, presenting an immense opportunity for growth. The Nigeria E-commerce Market size is projected at USD8.5bn for 2024 and is expected to reach USD14.9bn by 2029, growing at a CAGR of 11.82% during the forecast period (2024-2029).

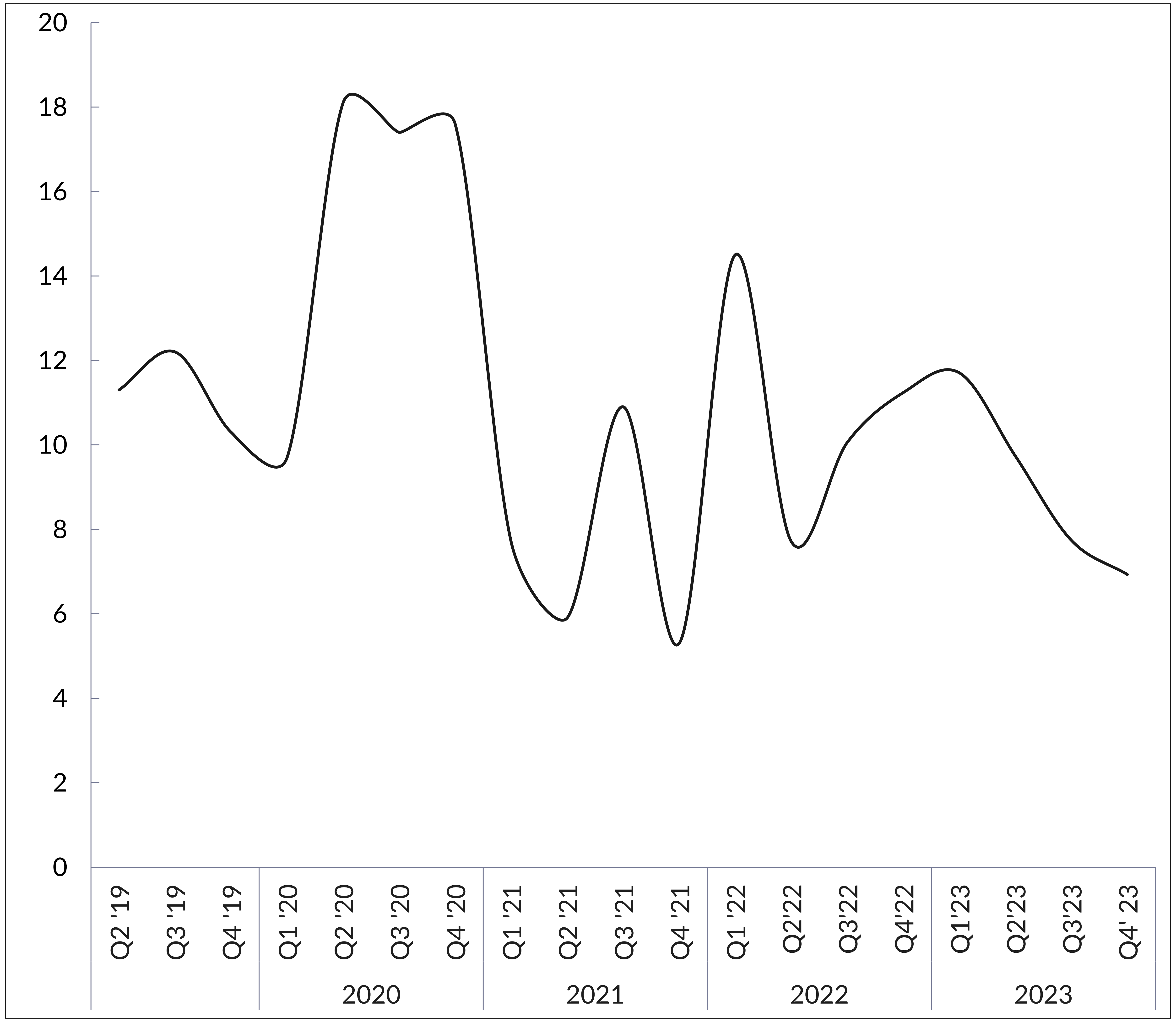
- ✓ Building strong consumer trust for online transactions is identified as a pivotal factor that could unlock the industry's latent potential. E-commerce platforms are leveraging partnerships with digital last-mile logistics providers like Gokada and O-Pay to overcome challenges and deliver products efficiently. Notably, these collaborations have breathed new life into motorcycle taxis, popularly known as "okadas," especially in areas where their passenger transport services were restricted.

- ✓ For e-commerce to realize its full potential, addressing infrastructure challenges and combatting e-fraud is imperative. Government intervention becomes crucial in prioritizing the enhancement of both digital and physical infrastructure. A proactive stance against electronic fraud will be instrumental in fostering a secure online environment, essential for the sustained growth of e-commerce.

- ✓ The surge in electronic transactions, evidenced by the c.55% y/y increase to N600trn in 2023, as recorded by the Nigerian Inter-Bank Settlement System (NIBSS), underscores the growing dominance of digital payments. The NIBSS Instant Payments (NIP) platform has emerged as a preferred payment method, driven by the proliferation of mobile telephony and expanding internet access.

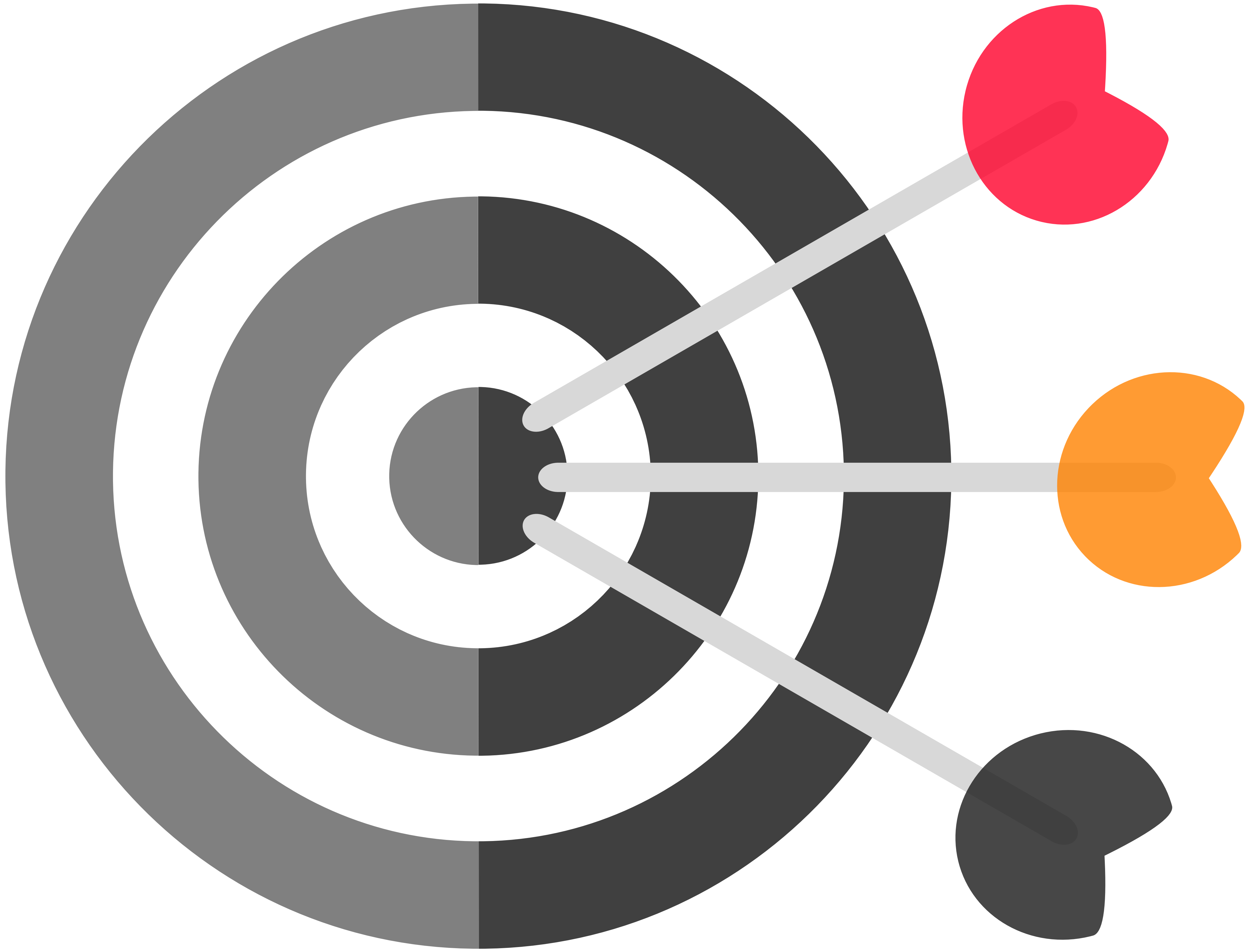
- ✓ The latest data from the NCC indicates that internet subscriptions reached 163 million as at December '23, marking a 5.8% y/y growth. MTNN leads the market share with 38.8%, followed by Airtel, Globacom, and 9Mobile at 27.6%, 27.5%, and 6.2%, respectively. MTNN's FY '23 results indicate a 22.7% y/y increase in revenue, propelled by a 39.9% y/y surge in data revenue.

Telecommunication GDP growth (y/y; %)



Sources: NBS, Coronation Merchant Bank Economic Research

Byte by Byte: Navigating Nigeria's Tech Landscape



- As we anticipate a robust growth trajectory in broadband penetration, strategic investments, harmonization of RoW fees, and the transformative potential of 5G technology collectively herald a new era for Nigeria's digital connectivity. The roadmap ahead involves navigating challenges with precision, ensuring that the benefits of broadband proliferation extend across sectors, driving economic prosperity and technological resilience.

- In the inaugural 100 days of Nigeria's Ministry of Communication, Innovation and Digital Economy, a strategic blueprint unfolds, demonstrating a commitment to elevate the country's global standing in the digital realm. The Three Million Technical Talent (3MTT) initiative, attracting over 1.6 million applications, takes center stage, signifying a robust talent cultivation strategy. Collaborative efforts with IHS Nigeria and UNDP further fortify this pivotal program. A meticulously crafted policy framework, exemplified by the Startup Support and Engagement Portal and White Papers on AI Strategy, underscores a commitment to create an ecosystem conducive to groundbreaking digital innovation.

- Comprehensive mapping of over 2,500 innovation spaces and the revitalization of NigComSat's platforms emphasize a strategic approach to infrastructure development, with a focus on democratizing access to digital opportunities. Critical partnerships, such as the USD116m financing for the I-DICE program and participation in the USD100m Global AI partnership, showcase a commitment to cultivating an environment where innovation and entrepreneurship can thrive.

CORONATION

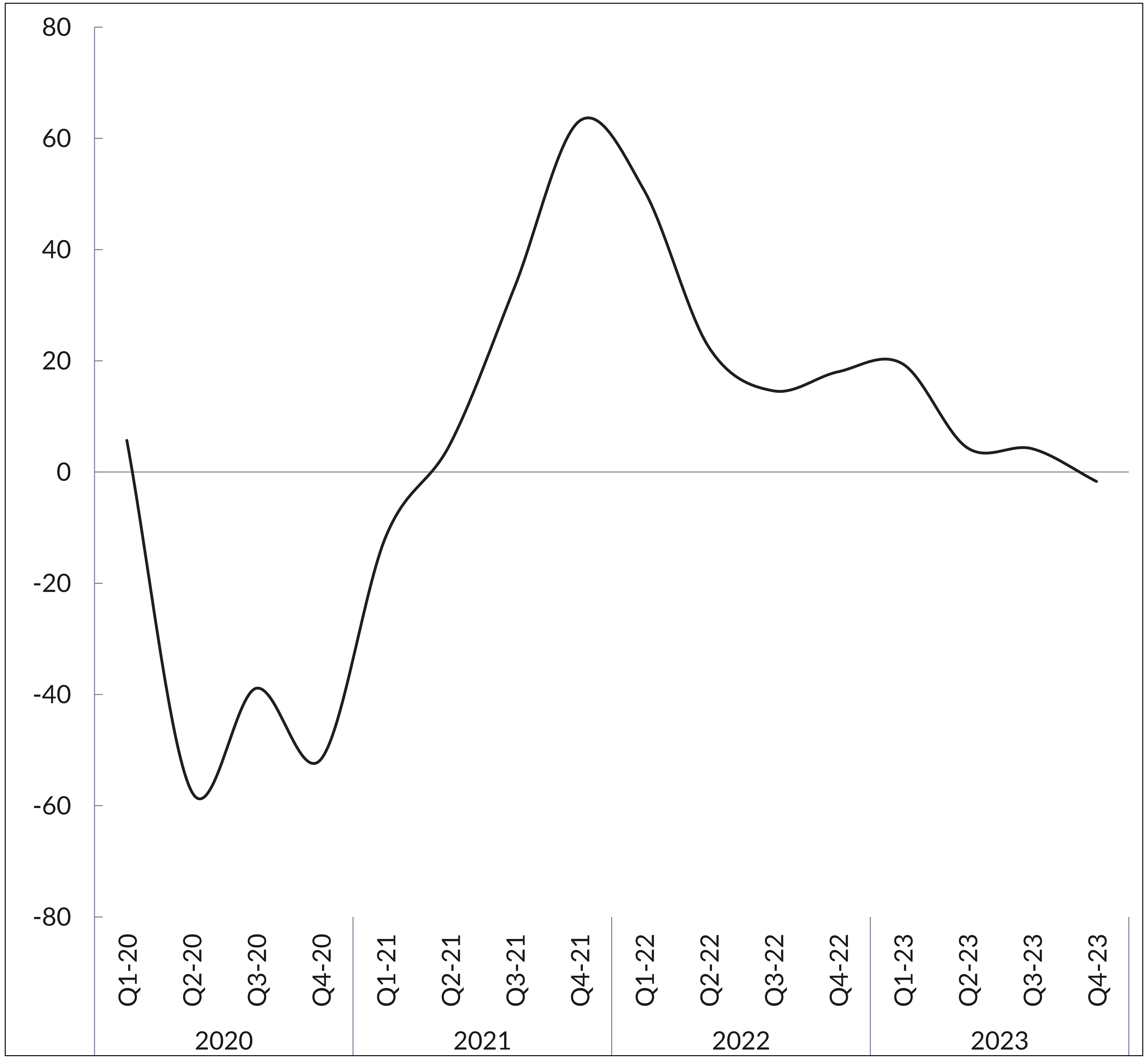
Aviation - Flying at a low altitude

Aviation - Flying at a low altitude

CORONATION

- ✓ The national accounts for Q4 '23 show that air transport contracted by -1.6% y/y but grew by 7.38% y/y for FY 2023. The segment accounted for 11.1% of total transport GDP in 2023. Over the past eight quarters, the segment grew by an average of 16.5%. This was the second fastest growing segment within transportation in 2023, following water transport.
- ✓ The persisting challenges faced by airline operators have been exacerbated in recent times. Especially given recent fx depreciations, as airlines often need to pay for international expenses in USD. Exchange rate fluctuations affect profitability. Additionally, there are limits to the cost that can be passed on to consumers, given that inflationary pressure continuously weighs heavy on consumer pockets.
- ✓ Based on data from the NBS "Transport Fare Watch" series, the average airfare for select routes (one-way) increased by 7.62% y/y to N78,778 in October '23. On a zonal basis, South-South recorded the highest average airfare (N81,500) for select routes (one-way) in October '23, followed by North-East (N81,300), North-West (N79,557), South-West (N79,006), South-East (N78,350), and North- Central (N73,564).
- ✓ In recent weeks, our channel checks show that domestic air tickets have generally risen by over 100% for select routes. Major domestic airlines have pegged their minimum base fare at N120,000 (one-way ticket) and for some routes, at N300,000 (return ticket).
- ✓ In response to the soaring airfares, anecdotal evidence suggests that Nigerians are increasingly turning to alternative transport modes such as road travel or even reconsidering the timing of their trips to take advantage of lower-priced tickets during off-peak periods. Road travel has gained favor due to its relatively lower cost and flexibility.

Air Transport GDP growth (y/y; %)



Sources: NBS, Coronation Merchant Bank Economic Research

Aviation - Flying at a low altitude

CORONATION

- The surge in ticket prices coincided with the festive season when many Nigerians typically travel. The price hikes prompted travelers to reassess their holiday plans and seek alternative ways to celebrate without breaking the bank.
- The ticket price fluctuations have broader implications, contributing to inflation, influencing consumer patterns and behavior, and affecting the sustainability of Nigeria's aviation industry.

Surging ticket prices

- ✓ The price of Jet A1 (aviation fuel) is largely dependent on movements in global oil prices. In 2023, average oil price remained above USD80/b.
- ✓ However, we note that in December '23, oil prices moderated to USD79/b. Although the price of Jet A1 has recorded a decline from c.N700/L in 2022 to c.N653.5/L (as at 22 December '23). To offset the increased fuel costs, airlines have been forced to increase ticket prices.

Operating Expenses

- ✓ The issues surrounding currency depreciation, fx sourcing constraints, and delayed fund repatriation have collectively driven foreign airline carriers to reconsider their presence in the Nigerian market.
- ✓ As at December '23, the International Air Transport Association (IATA) listed Nigeria in the top four markets with foreign airlines' blocked funds. Nigeria owes c.USD792m; Egypt - USD348m; Algeria - USD199m and Ethiopia - USD128m. Africa remains the largest market for passenger flows to and from Nigeria (73.3% of the total), followed by Europe (10.7%) and the Middle East (6.7%).

FX scarcity

- ✓ Establishing a robust national carrier with a global reach is essential. Such an airline can represent Nigeria internationally and bolster the country's reputation in the global aviation community.
- ✓ The national carrier (Nigeria Air) was initially scheduled to commence operations on May 29, 2023. However, this was delayed due to challenges in obtaining the Air Operator's Certificate. The House of Representatives revealed plans to conduct a forensic audit of the national carrier project.

National Carrier

Aviation - Flying at a low altitude

CORONATION

From our vantage point, improving the country's aviation sector requires deliberate efforts. Some recommendations include;

1	**Regulate ticket prices and reduce travel costs**	▪ Initiatives to regulate ticket prices and reduce travel costs are essential. This will make air travel more accessible to a broader segment of the population, boosting domestic tourism and business travel.
2	**Ensure stringent safety standards and effective maintenance**	▪ Ensuring stringent safety standards and effective maintenance procedures is paramount. The FGN should focus on maintaining a fleet of well-maintained aircraft to improve safety records and rebuild passenger trust.
3	**Offer incentives to international airlines to operate routes through Nigerian airports**	▪ To position Nigeria as a regional aviation hub, strategies such as offering incentives to international airlines to operate routes through Nigerian airports should be considered. This can stimulate competition and drive down fares. These incentives may include reduced landing fees, tax breaks, or marketing support.
4	**Streamline regulatory processes and reducing bureaucracy**	▪ Streamlining regulatory processes and reducing bureaucracy will attract foreign carriers and encourage domestic airlines to expand their regional networks.
5	**Modernize air traffic control systems and navigation infrastructure**	▪ Modernizing air traffic control systems and navigation infrastructure is crucial. This will enhance safety, reduce flight delays, and increase the overall efficiency of international travel.
6	**Consider introducing subscription-based models**	▪ Airlines should consider introducing subscription-based models, similar to Netflix or Amazon Prime, this can provide frequent fliers with more predictable and cost-effective travel options. Subscribers could receive a certain number of flights per month or year at a fixed rate.
7	**Stakeholders, including airlines, regulators, and policymakers, to work collaboratively**	▪ It is imperative for stakeholders, including airlines, regulators, and policymakers, to work collaboratively to find balanced solutions that support the aviation sector's growth while ensuring affordable and accessible air travel for all.

Manufacturing: Navigating Consumption and Currency Swirl

Manufacturing: Navigating Consumption and Currency Swirl

CORONATION

In recent years, Nigeria's manufacturing sector has experienced fluctuations in output growth, heavily influenced by the movement of crude oil prices and forex availability.

Challenges

- ✓ The removal of the PMS subsidy further compounds the challenges faced by manufacturers, with rising operational costs, manufacturers find themselves at a crossroads: either absorb the additional expenses or pass them on to consumers.
- ✓ However, given the current strain on household budgets, the latter option risks losing market share to foreign competitors offering relatively more affordable products.

Implications

- ✓ The implications of these factors extend beyond individual businesses to macroeconomic indicators. The uptick in operational costs is expected to exert upward pressure on the already high headline inflation rate, currently at 29.9% y/y.
- ✓ Moreover, the persistent issue of inadequate power supply continues to hamper manufacturing performance, as reliance on self-generation further burdens operating expenses.

Mitigants

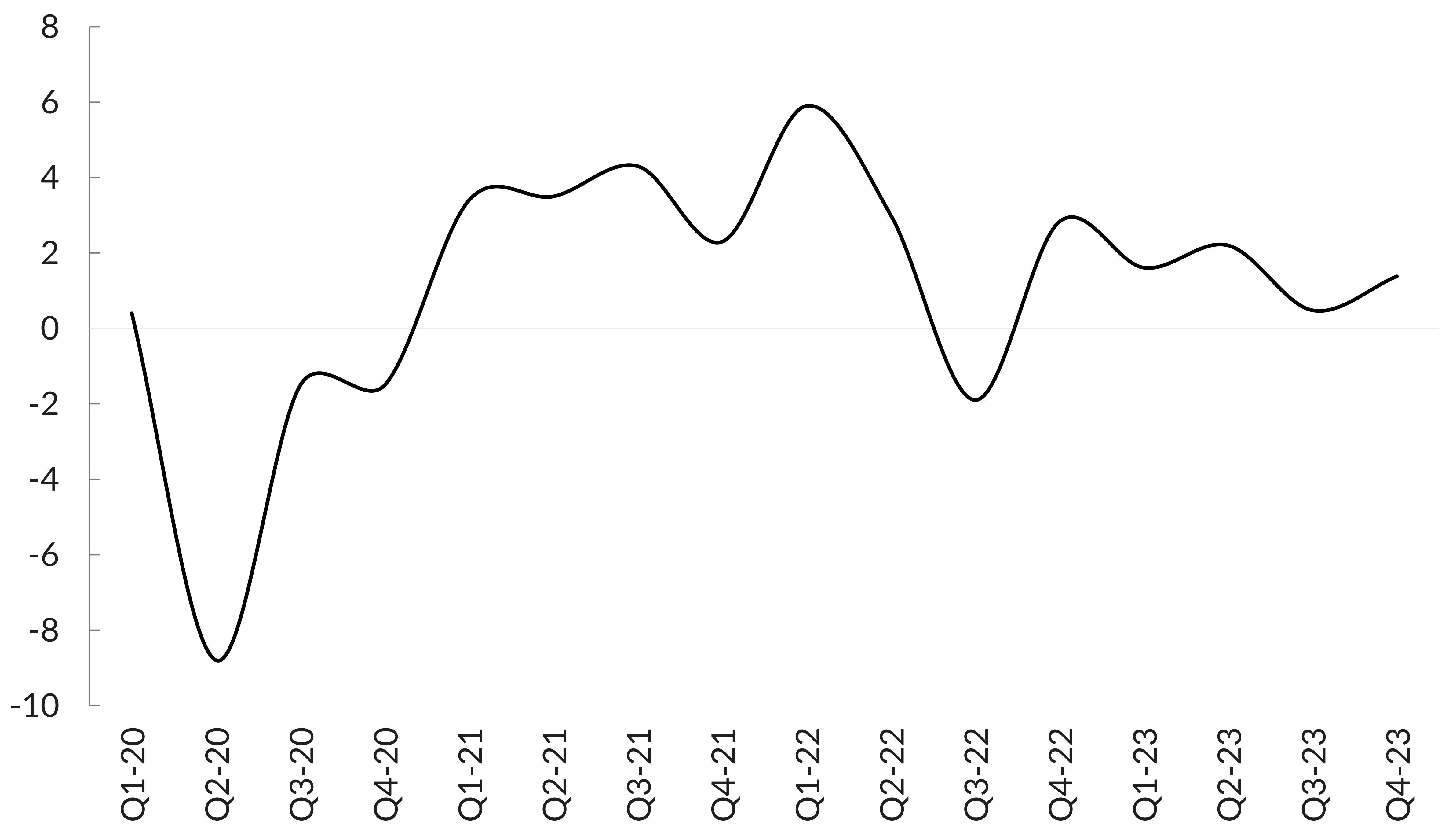
- ✓ In light of the challenging macroeconomic environment characterized by elevated inflation, forex depreciation, and sluggish GDP growth, manufacturers are compelled to explore strategies for resilience.
- ✓ This includes considering reformulating raw materials, investing in domestic production, and prioritizing risk mitigation and working capital optimization. Strengthening working capital not only ensures business continuity but also enables flexibility in meeting customer demands and pursuing growth opportunities

- ✓ Looking beyond Nigeria, examples from countries like China and Morocco offer valuable insights into strategies for nurturing vibrant manufacturing sectors. China's shift towards boosting domestic consumption of locally made products underscores the importance of self-sufficiency and reducing reliance on imports. Similarly, Morocco's transformation into a manufacturing hub highlights the significance of strategic investments in infrastructure and trade agreements to stimulate sectoral growth.
- ✓ As Nigeria navigates the complexities of the African Continental Free Trade Area (AfCFTA) agreement, there's a pressing need to fortify the domestic manufacturing sector. This requires substantial improvements in infrastructure, product standards, and service delivery to enhance competitiveness within regional value chains. Despite recent contractions in manufacturing sector growth, concerted efforts towards reform and innovation hold the key to unlocking its full potential in Nigeria's economic landscape.

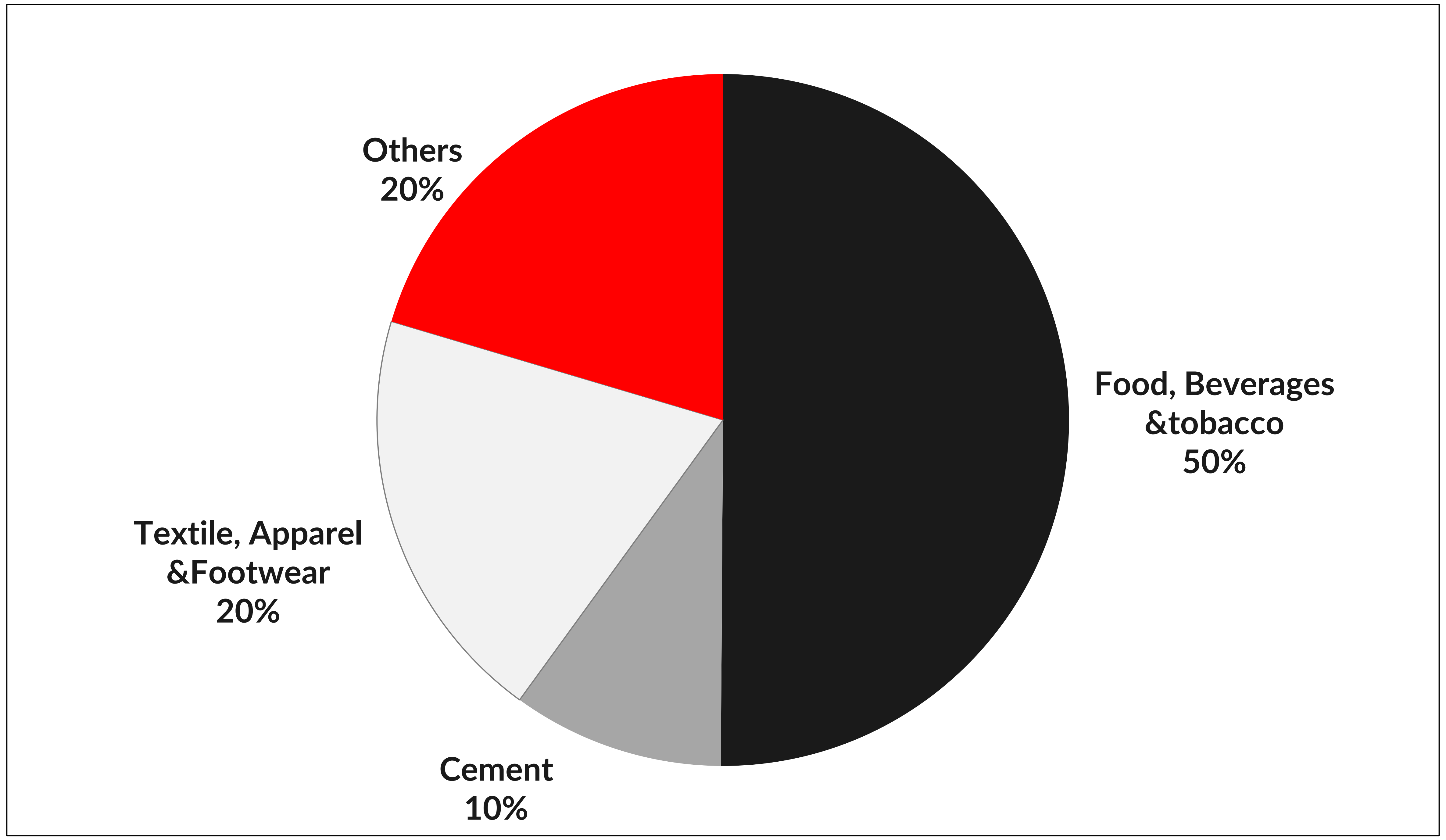
Manufacturing: Navigating Consumption and Currency Swirl

CORONATION

Manufacturing sector GDP growth (y/y; %)



Contributions to manufacturing sector GDP (y/y; %) Q4 '23



Sources: NBS, Coronation Merchant Bank Economic Research

✓ The importance of a vibrant manufacturing sector in emerging economies cannot be overemphasized. A functional manufacturing base attracts increased research, productivity, and exports. In addition, due to its extensive value-chain, the sector is capable of boosting jobs across different economic classes. There are several factors that could support the steady expansion of a country's manufacturing sector. These factors trigger demand and supply dynamics which are essential for a thriving manufacturing base.

✓ On another note, the Dangote Refinery is expected to catalyze downstream industries and value-added manufacturing activities in Nigeria. The availability of locally refined petroleum products at competitive prices can stimulate growth across various manufacturing sectors that rely on these inputs, such as plastics, chemicals, fertilizers, and pharmaceuticals. Furthermore, by reducing input costs and enhancing supply chain reliability, the Dangote Refinery can spur investment, innovation, and expansion within these industries, fostering greater value addition and industrialization. Additionally, the Dangote Refinery has the potential to create employment opportunities and promote skills development within the manufacturing sector and related industries.

CORONATION

Mining, in Need of a Leg Up

Mining, in Need of a Leg Up

CORONATION

- ✓ Nigeria boasts a vast array of mineral resources, ranging from gold, coal, and iron ore to tantalite, limestone, and gemstones, among others. These resources, scattered across the nation's geographical expanse, present immense potential for driving economic diversification and sustainable development.
- ✓ With the right strategic focus and investment, Nigeria's mining sector has the capacity to emerge as a significant contributor to GDP, employment generation, and foreign exchange earnings.

- ✓ From a macroeconomic perspective, the development of Nigeria's mining sector holds the key to unlocking a plethora of economic opportunities. Indeed, harnessing Nigeria's mineral wealth can reduce its overdependence on oil revenue, thereby enhancing revenue diversification and fiscal stability.
- ✓ Furthermore, the mining sector has the potential to catalyze industrialization, as raw materials sourced domestically can fuel downstream industries, such as metallurgy, construction, and manufacturing, fostering value addition and import substitution.

- ✓ For potential investors, Nigeria's mining sector presents an attractive investment destination ripe with opportunities. The recent strides in policy reforms and regulatory frameworks offer streamlined procedures for exploration, mining licenses, and mineral rights acquisition.
- ✓ Furthermore, the government's commitment to enhancing transparency and governance within the sector, coupled with incentives such as tax holidays and duty exemptions, bodes well for investors seeking to capitalize on Nigeria's mineral wealth.

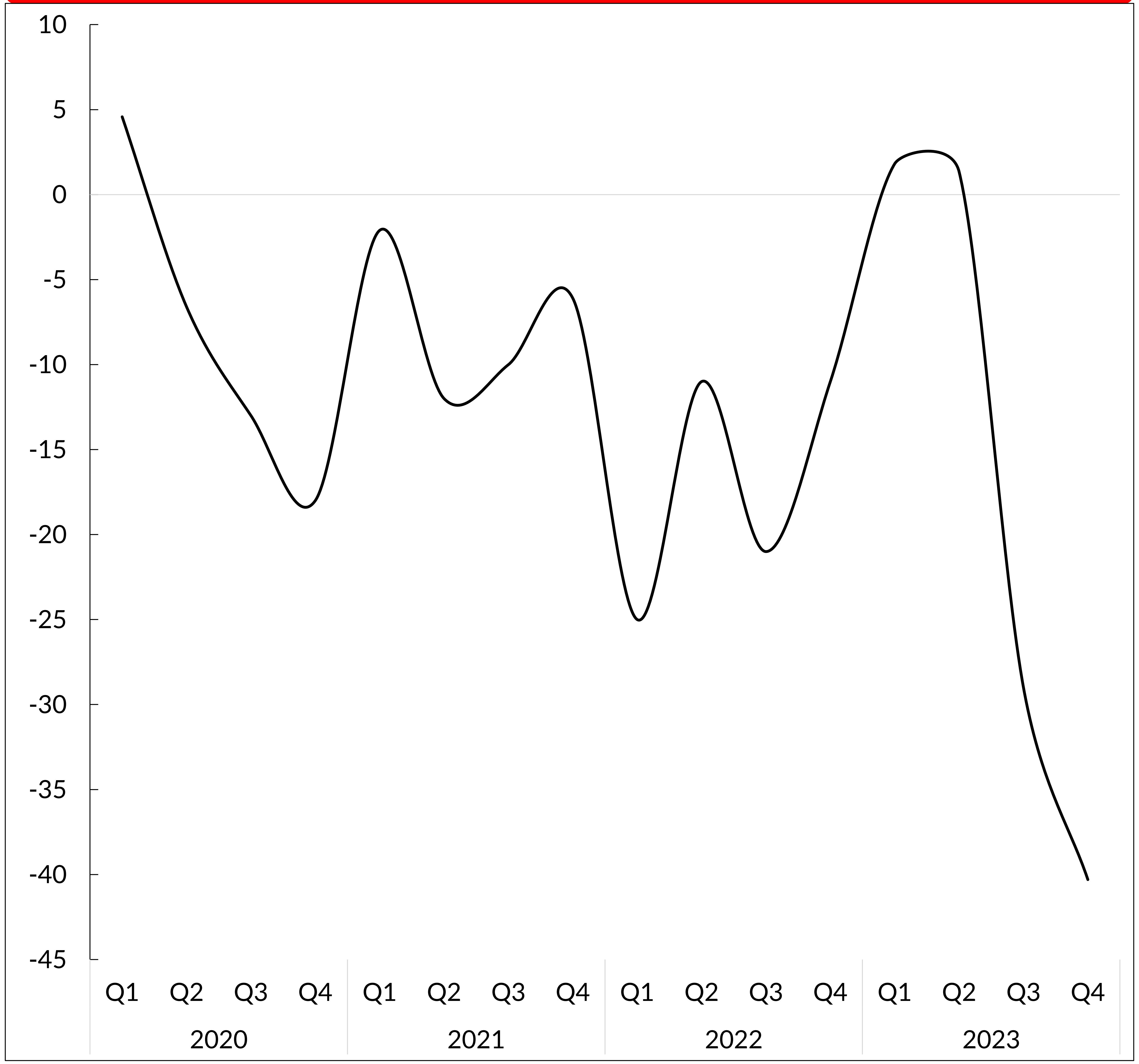
Mining, in Need of a Leg Up

CORONATION

- ✓ Although the prospects for Nigeria's mining sector are undeniably promising, it is essential to acknowledge and address the challenges that accompany its development.
- ✓ Key among these challenges are infrastructure deficits, inadequate geological data, regulatory bottlenecks, and security concerns in certain mining areas.
- ✓ Addressing these challenges requires a concerted effort from both the public and private sectors, with investments directed towards infrastructure development, geological surveys, capacity building, and security enhancement.

- ✓ Through stakeholder engagement, environmental conservation measures, and community development initiatives, the mining sector can contribute positively to Nigeria's socio-economic fabric while safeguarding the environment for future generations.
- ✓ The latest national accounts by the NBS show that in Q4 23, the sector contracted by -40.3% y/y and for FY 2023, it contracted by -19.5% y/y contributing just 0.2% to total GDP.

Mining and Quarrying sector GDP (y/y; %)



Sources: NBS, Coronation Merchant Bank Economic Research

CORONATION

Persistently High Inflation

INFLATION

CORONATION

Indicator	December '23 (y/y)	December '22 (y/y)	Change
Headline inflation	28.92%	21.34%	↑ 758bps
Food inflation	33.93%	23.75%	↑ 1018bps
Core inflation	23.06%	18.49%	↑ 457bps
Imported food inflation	24.90%	18.35%	↑ 655bps

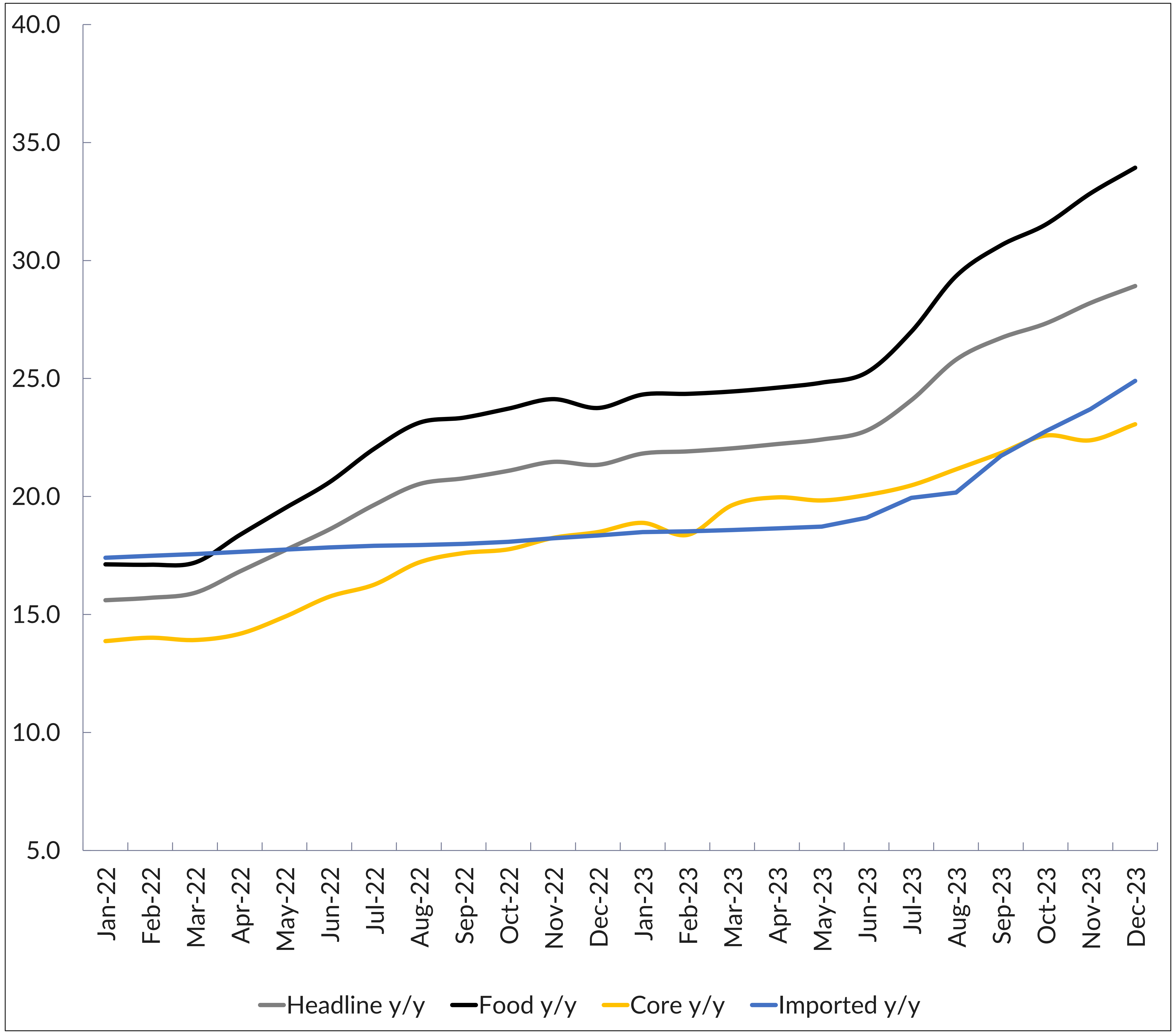
LATEST DEVELOPMENTS

- In 2023, inflation was driven by electioneering spending, structural issues such as high logistics costs, poor infrastructure, storage issues, exchange rate pressure, elevated cost of PMS (following the removal of subsidy in June '23), diesel and aviation fuel, as well as insecurity (especially in food-producing areas). The uptick in December '23 can be partly attributed to the seasonal demand boost associated with end-year festivities.

OUTLOOK – BASE CASE: 27.5% AT END-2024

- Inflation is expected to remain elevated in 2024. However, modest declines should be recorded. This is largely on the back of positive base effects.
- Structural issues impacting the cost of doing business such as insecurity and poor infrastructure
- Exchange rate depreciations and spikes in production costs especially for imported inputs.
- Elevated diesel and aviation prices continue to exert pressure on core- inflation. *F, Avg. Bonny Light (end-year 2024) = USD82/b
- Residual Effect of PMS subsidy removal on consumer pockets and OPEX for businesses and domestic supply-chain disruptions impacting food inflation.

Headline Inflation (% change; y/y and m/m)



Sources: NBS, Coronation Merchant Bank Economic Research

Monetary Policy, Foreign Exchange and Financial Intermediation

MONETARY POLICY – LATEST DEVELOPMENTS

CORONATION

Monetary Policy Rate

- In 2023, the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) softened its interest rate hikes. Notably, the MPC increased (cumulatively) the key policy rate by +225bps vs +500bps recorded in 2022. We note that only four (4) meetings were held in line with the CBN Act 2007 in 2023.
- The asymmetric corridor was adjusted for the first time since September 2020 to +100/-300bps around the MPR from +100/-700bps.
- In February 2024, the policy rate was hiked by +400bps to 22.75%. The asymmetric corridor was adjusted to +100/-700bps, cash reserve ratio was raised to 45% from 32.5% and liquidity ratio was retained at 30%.
- The decision to hike the MPR was primarily influenced by the prevailing headline inflation rate, currently at 29.9% y/y, and the ongoing pressures on the exchange rate. The MPC recognizes the need to put in place measures to boost investor confidence and attract capital inflow.

Return to Orthodoxy

- The return of Open Market Operation (OMO) auction to mop up system liquidity while simultaneously presenting attractive investment opportunities. The frequency and size of OMO auctions would increase. We note that from August '23 – March '24, the CBN has conducted a total of eight (8) OMO auctions
- The removal of the N2bn daily limit on funds placed at the Standing Deposit Facility (SDF) window allows the CBN manage system liquidity, while offering valuable feedback to assess the effectiveness of its current policy parameters.
- The MPC has mandated all banks to adhere strictly to the 45% CRR requirement. Consequently, banks with CRR debits exceeding 45% will receive refunds, while others will be adjusted to meet the 45% threshold. Notably, the central bank has streamlined this process to operate automatically, eliminating the previously encountered stress.

Publication of Financial statements

- In a move towards enhanced transparency, the CBN published its financial statements, for the years 2017– 2022 in in August 2023, The financial statements show that the CBN recorded a small profit throughout the period as large income inflows were recorded from the interest payments from the Ways and Means financing extended to the FGN.
- Large credit losses were also reported, likely due to the CBN undertaking several development finance schemes. Other large costs included were linked to foreign exchange revaluations,
- The statements also showed that the CBN had significant short-term liabilities, including foreign exchange denominated liabilities, indicating that in the CBN's net reserves were significantly lower than the gross reserves being reported.

INSIGHTS – NEW CBN GOVERNOR

CORONATION

Clearance of backlog of fx forwards

- ✓ After an independent forensic audit, USD2.4bn FX claims were deemed invalid. This brings the total backlog of fx obligations owed by the CBN to USD4.6bn as opposed to USD7bn initially reported. USD2.3bn has been settled, while the remaining c.USD2.2bn is to be settled going forward.

Foreign Exchange Guidelines

- ✓ New foreign exchange guidelines will be conducted with banks and FX market operators before implementing any new requirement.
- ✓ Examples include the requirement for banks to liquidate their net long USD positions and lifting the cap on the fx rate, international money transfer operators can quote to encourage USD supply from the private sector

End to Quasi-fiscal Activities and Return to Orthodoxy

- ✓ The primary mandate of the CBN is to ensure price stability, the CBN discontinues direct quasi-fiscal interventionist activities but will utilize orthodox monetary policy tools for implementing monetary policy.

Inflation-targeting Framework.

- ✓ In refocusing, the CBN has approved the adoption of an explicit inflation-targeting framework. The details of this framework are currently being finalized alongside the fiscal authorities. Note: the current inflation target range is 6 – 9%

Cohesion between Fiscal And Monetary Authorities

- ✓ To enhance cohesiveness between fiscal and monetary authorities, efforts are underway to ensure that all USD-earning agencies and parastatals remit their earnings directly to the CBN to enhance transparency and liquidity in the FX market.

Monetary Policy Transmission

- ✓ CBN's new leadership team has critically reviewed the effectiveness of monetary policy tools and are fixing the monetary transmission mechanisms to ensure the decisions at MPC meetings result in desired objectives.
- ✓ Inauguration of a new liquidity management committee to assess liquidity conditions and ensure optimal levels.

Forward Guidance

- ✓ The CBN will provide forward guidance, enhance transparency, and maintain effective communication with the public to anchor expectations and build trust among stakeholders. The intent is to conduct regular stakeholder engagements to gain insights relevant for decision-making.

Recapitalization To Service A USD1trn Economy

- ✓ The CBN plans to direct banks to recapitalize in an attempt to service a USD1trn economy. There are concerns around sufficient capital among Nigerian banks to service a USD1trn economy in the near-future.

MONETARY POLICY OUTLOOK

CORONATION

MPC MEETINGS 2024	FEB	MAR	MAY	JUL	SEPT	NOV
	Monday, 26th and Tuesday, 27th	Monday, 25th and Tuesday, 26th	Monday, 20th and Tuesday, 21st	Monday, 22nd and Tuesday, 23rd	Monday, 23rd and Tuesday, 24th	Monday, 25th and Tuesday, 26th

1

❖ MONETARY POLICY TIGHTENING

Continuous monetary policy tightening, given elevated inflation levels. We suspect continuous inflation targeting posture by MPC. Note: the current inflation target range is 6 – 9% y/y.

2

❖ CBN'S CONTINUOUS USE OF OPEN MARKET OPERATION (OMO) TO MANAGE LIQUIDITY

Continuous market liquidity mop up is expected to continue via frequent OMO auctions with CRR/LDR debits and an end to quasi-fiscal activities.

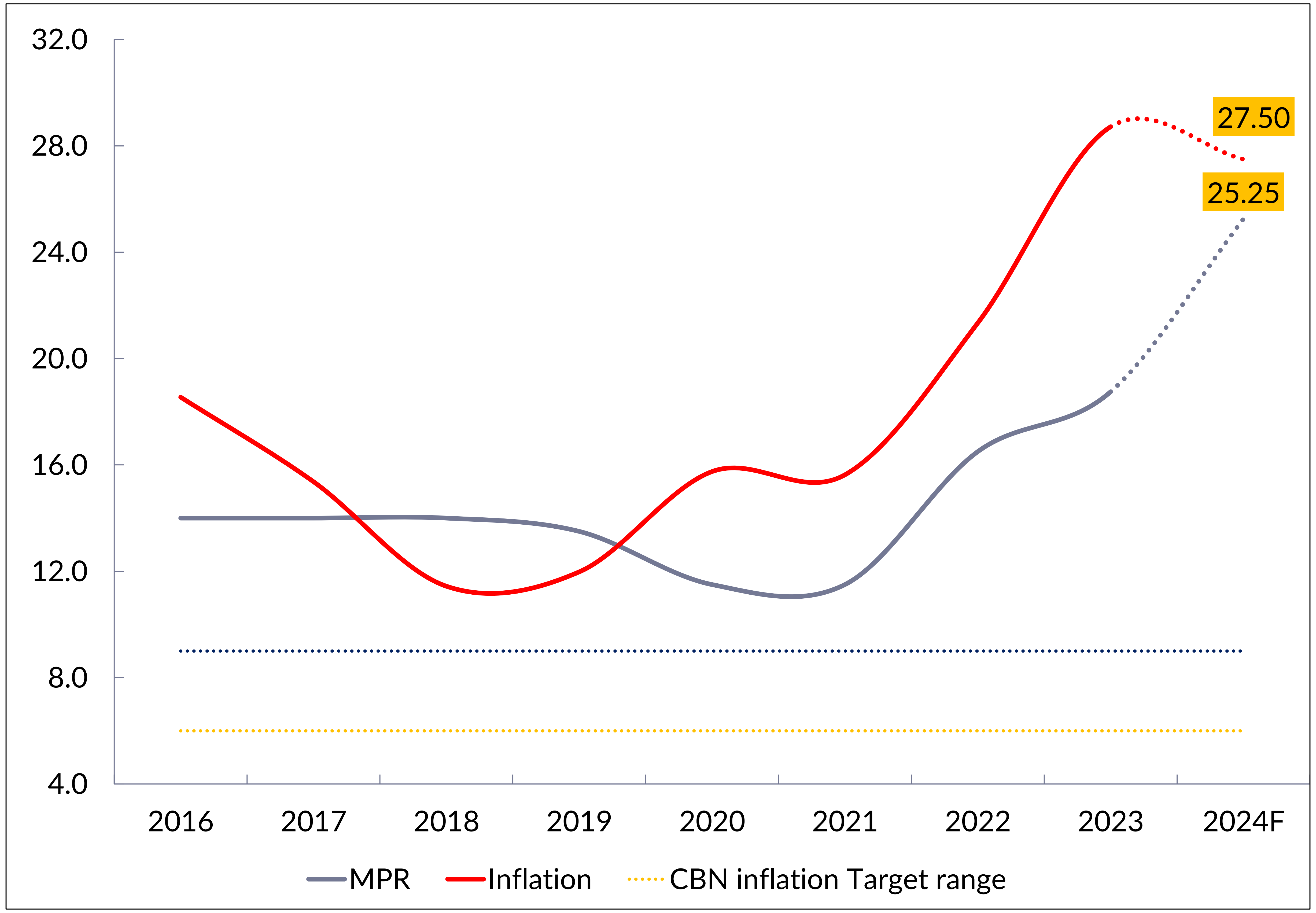
3

❖ CBN'S USE OF OTHER ORTHODOX POLICIES TO MANAGE LIQUIDITY

For example, the removal of the N2bn daily limit on funds placed at the Standing Deposit Facility (SDF) window allows the CBN manage system liquidity, while offering valuable feedback to assess the effectiveness of its current policy parameters.

MPR FORECAST	
Year	**Outlook – Base Case**
FY 2024	25.25%

MPR and Inflation (%)



Sources: CBN, NBS, Coronation Merchant Bank Economic Research

Reserves and Exchange Rate

CORONATION

Metric	End –2023	End- 2022	Variance
External reserves (USD 'bn)	32.9	37.2	-11.6%
NAFEX/I&E (NGN/USD)	907.1	461.5	+96.6%
Parallel market (NGN/USD)	1215	736.0	+65.1%

✓ **FX Liberalization policy**

In June 2023, the CBN abolished its multiple FX windows and reintroduced the "willing buyer, willing seller" model at the I & E window. The NAFEM and parallel market rates converged briefly but diverged again in August '23 as unmet demand was channeled to the parallel market. However, the rates converged again February '24.

✓ **CBN Interventions**

The NAFEX window recorded an inflow of USD16.7bn in 2023 compared with an inflow of USD14.8bn in 2022. The CBN accounted for 7.4%, FPIs; 7.9%, non-bank corporates; 41.8%, exporters; 34.4%, and others accounted for 8.4% in FY2023. YTD, the CBN has injected USD440m accounting for 16.6% of total inflow into NAFEM in February, FX supply efforts being made, but constraints likely to persist in the near-term.

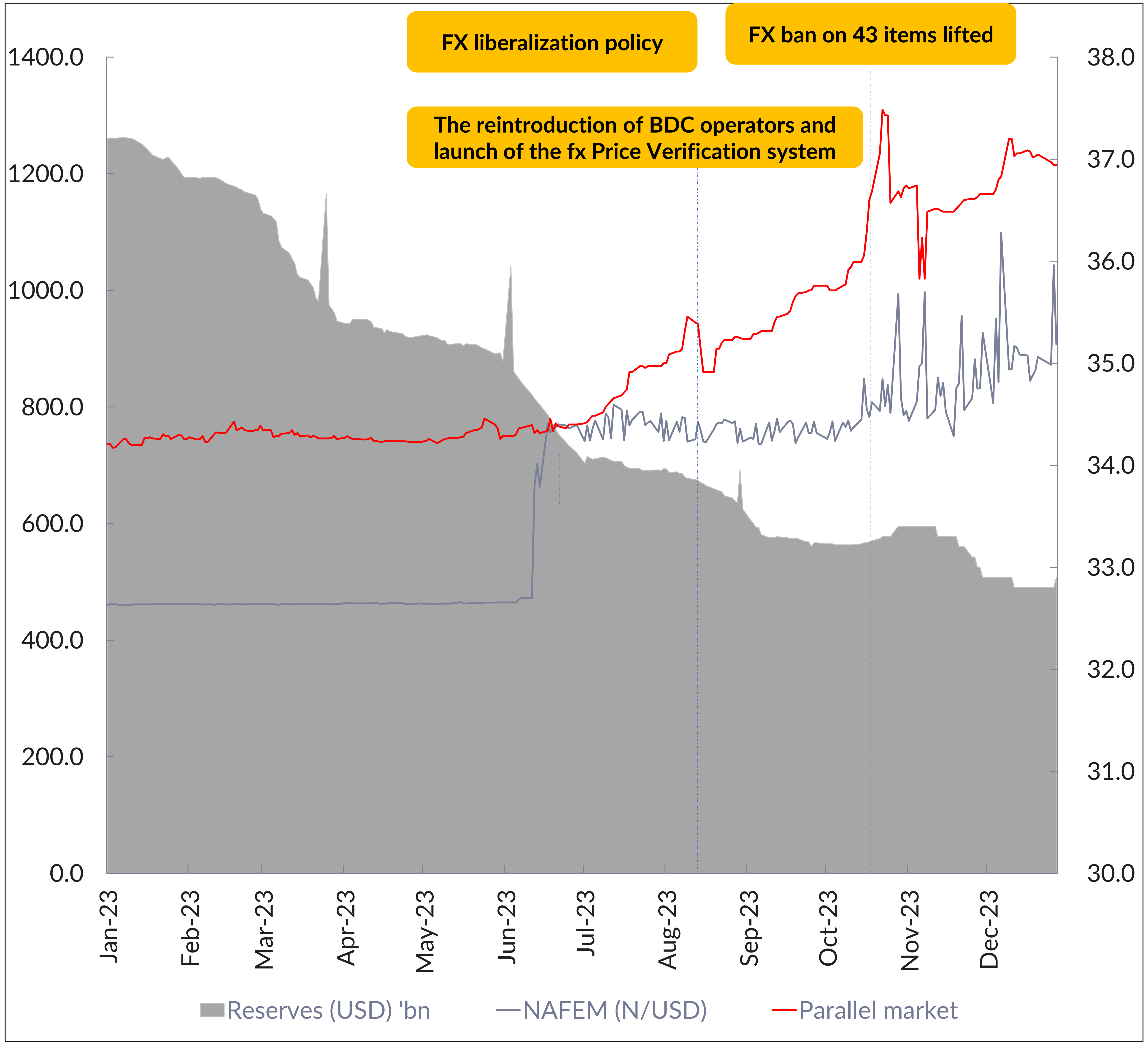
✓ **FX ban on 43 items lifted**

Lifting the ban on 43 items previously banned from sourcing the NAFEM market had a negligible effect on the value of the Naira against the USD.

✓ **FX backlog clearance**

The CBN began clearing its backlog of matured fx obligations estimated at USD4.6bn as opposed to the initial USD7bn reported. So far, CBN has cleared about 61% (c.USD2.8bn) of the matured fx obligations, with USD1.8bn still outstanding.

Reserves (USD), NAFEX and Parallel Mkt FX rate (N/USD)



Sources: CBN, FMDQ, Coronation Merchant Bank Economic Research

FX LIQUIDITY SOURCES

CORONATION

Key Assumptions	
FX Inflow via Oil Receipts	✓ Production levels remain low. In 2023, minimal impact was seen in the accretion of gross external reserves from oil receipts. We note that several months within 2023 recorded production levels at = or >1.5mbpd
Muted FX Inflow via FPIs	✓ Policy rate hikes should encourage inflow but other factors such as repartition issues and relative attractiveness in advanced economies with perceived stability in comparison to Nigeria will keep inflows from this source muted
FX liquidity via non-oil export	✓ Minimal impact on boosting fx liquidity in the near-term given the need to formalise informal trade activity. To see significant boost, bolstering export activity via improvements in domestic productivity is required.
Remittance via Diaspora	✓ Remittance inflow estimated at USD23bn in 2023, slightly higher than USD21bn recorded in 2021.
FX liquidity via Eurobond Issuance	✓ ICM still expensive for emerging economies, no issuance expected in the near-term. DMO dollar maturities payout obligation amounts to USD1.15bn by November 2025. There are NO repayment concerns, but this should impact fx availability.
Foreign Direct Investment	✓ Significant fx inflow via this source is expected but in the medium to long-term and largely dependent on implementation of policy actions that attract green and brownfield investments. Over the past year, this source contributed less than c.15% to FX Inflow into the NAFEX window
Multilateral and bilateral loans	✓ Some of the loans include a USD1.5bn World Bank budget support facility, a USD3bn AFREXIM bank crude repayment loan which USD2.25bn has been received and then USD7bn from the securitisation of the country's dividends from the Nigerian Liquefied Natural Gas (NLNG).

Recent CBN Circulars on FX

CORONATION

1 HARMONISATION OF REPORTING REQUIREMENTS ON FX EXPOSURES OF BANKS

- ✓ The circular mandates that the Net Open Positions (NOP) must not exceed 20% short or 0% long (previously 10% long) of the bank's shareholders' funds unimpaired by losses. This calculation must be done using the Gross Aggregate Method. Additionally, banks must calculate their daily and monthly NOP and Foreign Currency Trading Position (FCT) using specific templates provided by the CBN.
- ✓ Comment: The circular aims to mitigate excessive FX exposures that could strain liquidity and exacerbate volatility.

2 REMOVAL OF ALL ALLOWABLE LIMIT OF FX QUOTED BY IMTOs

- ✓ The CBN issued another circular lifting the cap on the allowable limit of -2.5% to +2.5% around the previous day's closing rate, international money transfer operators could quote. Now, IMTOs can quote based on the prevailing market rate and on a willing seller, willing buyer basis.
- ✓ Comment: Enabling IMTOs to quote FX rates based on prevailing market conditions and on a willing seller, willing buyer basis, fosters a more flexible and transparent FX market, which enhances liquidity and facilitates efficient allocation of FX resources. Furthermore, increased competition among IMTOs resulting from the removal of limits encourages innovation and efficiency improvements in FX transfer services, ultimately benefiting consumers through lower costs and improved accessibility to FX.

Recent CBN Circulars on FX

CORONATION

3 FOREIGN EXCHANGE RATE FOR IMPORT DUTY ASSESSMENT

- ✓ The circular advises that the Nigeria Custom Service and other related parties adopt the closing fx rate on the date of the opening Form M for the importation of goods, as the fx rate to be used for import duty assessment. The rate remains valid until the date of termination of the importation and clearance of goods by importers. This would enable the Nigeria Custom Service and the importers to effectively plan appropriately and reduce the uncertainties around varying daily exchange rate in determining their revenue or cost structure, respectively.

4 REVISED REGULATORY AND SUPERVISORY GUIDELINES FOR BUREAU DE CHANGE OPERATIONS IN NIGERIA

- ✓ The guidelines significantly enhances the regulatory framework for the operations of Bureau De Change as part of ongoing reforms of the fx market. The guidelines revise the permissible activities, licensing requirements, corporate governance and Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) provisions for BDCs. It also sets out new record-keeping and reporting requirements, among others.

- ✓ Comment: Strengthening the regulatory framework for BDCs should have a positive impact on exchange rate stability by improving the efficiency of FX transactions. Promoting compliance with regulatory standards and enhancing market transparency should contribute to a more orderly FX market, which can help mitigate exchange rate volatility.

Recent CBN Circulars on FX

CORONATION

5 ALLOWABLE DEVIATION LIMIT ON THE PRICE VERIFICATION SYSTEM

- ✓ Following the implementation of the Price Verification System (PVS) to curb over-invoicing of imports and under-invoicing of exports, the circular reviewed the allowable limit of price deviation for exports and imports to -15% and +15% of the global average prices, respectively. This takes into consideration global inflation and other related challenges. Effective control of over-invoicing of imports and under-invoicing of exports can help conserve Nigeria's FX reserves by preventing unnecessary FCY outflows. This can also contribute to a more balanced trade account by ensuring that export earnings accurately reflect the value of goods and services sold abroad, supporting Nigeria's macroeconomic stability.

6 ALLOWABLE CHANNELS FOR PAYOUT OF PERSONAL TRAVEL ALLOWANCE (PTA) AND BUSINESS TRAVEL ALLOWANCE (BTA)

- ✓ The circular mandates that all Authorized Dealer Banks payout PTA/BTA through electronic channels only, including debit or credit cards. Payment of PTA/BTA by cash is prohibited.

- ✓ Comment: Electronic channels for PTA/BTA payouts promote transparency in FX transactions by creating a digital trail that facilitates easier tracking and monitoring of funds. The shift towards electronic channels offers numerous benefits but there may be challenges associated with infrastructure readiness, cybersecurity, and user education.

7 REQUIREMENTS FOR FOREIGN CURRENCY CASH POOLING ON BEHALF OF INTERNATIONAL OIL COMPANIES IN NIGERIA

- ✓ According to the circular, banks are allowed to pool cash on behalf of IOCs, subject to a maximum of 50% of the repatriated export proceeds in the first instance. The balance of 50% may be repatriated after 90days from the date of inflow of the export proceeds. This is to ensure minimal negative impact of domestic fx liquidity.

Q1 2024 - Outlook

CORONATION

✓ **FX Reserves**

A deliberate strategy is in place to enhance reserves accretion through various channels. Efforts are underway to tap into all potential sources, with a recent development being the reinstatement of remittance by NNPCL (formerly NNPC). Over the past three years, there has been a hiatus in such inflows to the CBN, contrasting sharply with the substantial USD92bn remitted in 2012 alone. Additionally, we expect improved oil production and positive outcomes stemming from ongoing reforms within the oil sector. The CBN is working towards resolving encumbrances to the reserves such as the fx backlogs in coming days. Furthermore, increased revenue generation by the federal government, driven by fiscal reforms, is expected to bolster reserves growth. The fiscal authorities are committed to ensuring that FX-earning ministries and agencies contribute effectively to CBN's resource pool.

Comment: Based on our current projections for end-2024, we have gross reserves at +/-USD34bn for base case, +/-USD30bn for downturn case and +/-USD38bn for optimistic case.

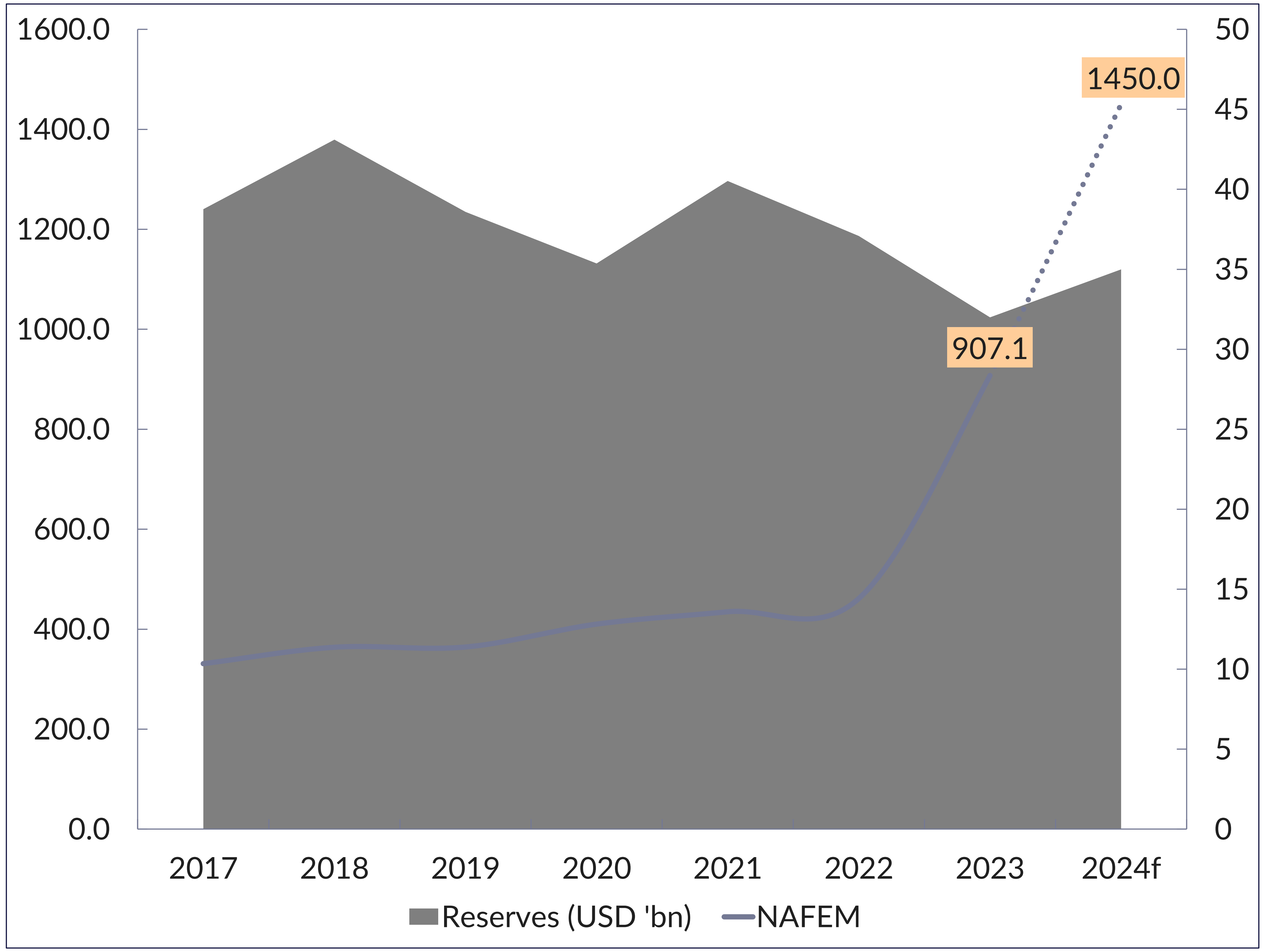
✓ **Sale of USD20,000 at N1,300/USD to BDC**

The first objective is to enhance regulatory compliance within the Bureau de Change (BDC) segment, aligning it more closely with AML/CFT regulations and reporting standards, while integrating technological advancements to ensure the delivery of enhanced, efficient, and well-regulated services to its customer base. Regarding interventions in the BDC segment, the CBN prioritizes maintaining stability within the foreign exchange market. Consequently, when excessive volatility is detected, the CBN is prepared to intervene. It is crucial to clarify that such interventions are not aimed at influencing market prices but are driven by the goal of ensuring stability.

Comment: From our vantage point, the interventions would contribute to stabilizing the FX market by mitigating excessive volatility, thereby instilling confidence among market participants. This stability is crucial for maintaining macroeconomic equilibrium and facilitating sustainable economic growth.

OUTLOOK	
Metrics	**Outlook – Base Case**
External Reserves	USD34bn
NAFEM	N1,450/USD

External reserves vs NAFEM (N/USD)



Sources: FMDQ, Channel checks, Coronation Merchant Bank Economic Research

Fiscal Landscape

2023 FGN BUDGET

CORONATION

- ✓ The 2023 FGN Budget titled ''*Budget of Fiscal Consolidation and Transition*' was the last full-year budget to be presented by the Buhari administration. The budget sought to continue the reflationary policies recent past budgets, with the goal of putting the economy on the path to recovery and growth against the backdrop of a challenging global and domestic macroeconomic environment,
- ✓ The budget was pegged at N24.8trn. This included the supplementary budget of N2.17trn passed by the national assembly in October '23, while the revenue target was N11.04trn. Non-debt recurrent spending projected at N9.3trn or 37.5% of total expenditure, aggregate capital expenditure was projected at N7.9trn or 31.9% of total expenditure while N6.6trn was budgeted for debt servicing.
- ✓ The budget assumptions were revised, and the benchmark oil price was put at USD75/b, oil production was put at 1.72mbpd. Other assumptions include an exchange rate of N700/USD, GDP growth rate of 3.75% y/y and an inflation rate of 17.16%. This resulted in a projected budget deficit of N13.8trn
- ✓ Based on data from the budget office of the Federation, the FGN's retained revenue between January to September '23 stood at N8.65trn. This is 104.5% of the prorate target of N8.28trn and can be largely attributed the exchange rate differential brought on by the fx liberalization policy, savings from the removal of PMS subsidy and the overperformance of non-oil revenue, surpassing the prorate target by 35% riding on the wheels of increased CIT collections slightly higher VAT revenue.
- ✓ Meanwhile, N12.7trn has been spent out of the prorate target of N18.62 (as at end-September). Consequently, the government spent 31.80% less than budgeted in the 9-month period. Out of this amount, N5.7trn was for debt servicing (45.7% of the total expenditure). - driven by higher domestic debt including interest on ways and means.
- ✓ Meanwhile, N3.7trn was spent on personnel cost, including pensions. We note that only c.N1.5trn (25% of the pro-rata budget) has been released for MDAs' capital expenditure as at end- September '23.
- ✓ The fiscal deficit stood at –N4.0trn vs the prorate target of –N10.3trn and mainly financed from domestic sources.

Assumptions	2023 Revised Forecast (as at July 2023)
Benchmark oil price (USD/b)	75.00
Oil production (mbpd)	1.72
Exchange rate (N/USD)	700
Target inflation (%)	17.16
GDP growth rate (%)	3.75

2023 FGN BUDGET PERFORMANCE (JAN – SEPT '23)

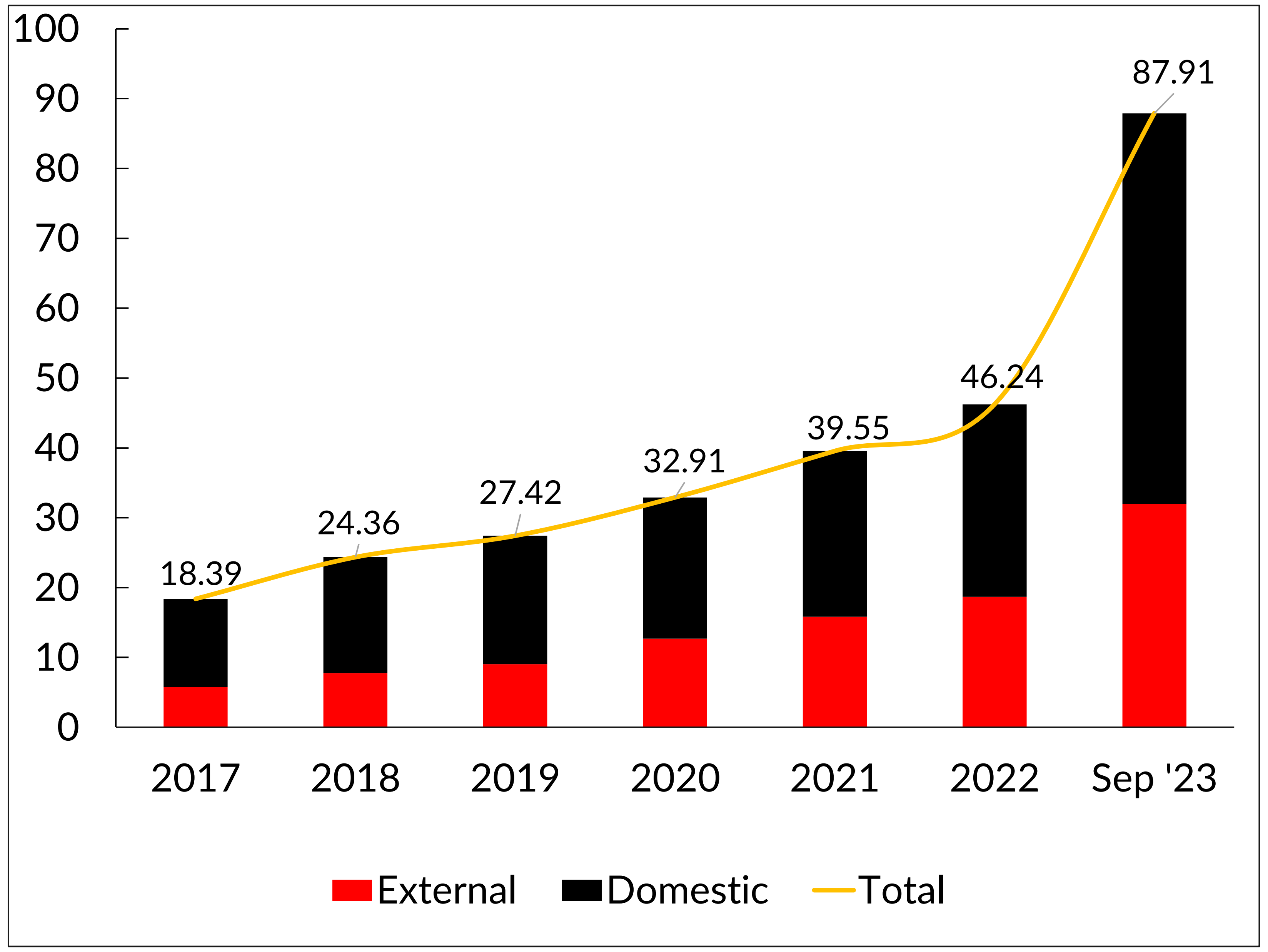
ITEMS	2023 FGN budget (N 'trn)	Prorate target (N 'trn)	Actual N'trn (January - September)	Variance (N 'trn)	Variance (%)
Aggregate FGN expenditure	**24.8**	**18.6**	**12.7**	**5.9**	**-31.8%**
Non-Debt Recurrent Expenditure	9.3	6.9	4.7	+2.2	-33.4%
Debt Service	6.6	4.9	5.8	-0.9	+17.7%
Capital Expenditure	7.9	5.9	1.5	+4.4	-75.3%
Aggregate FGN revenue	**11.04**	**8.3**	**8.6**	**-0.3**	**+4.5%**
Oil Revenue	2.2	1.7	1.4	0.3	-15.3%
Non-Oil Revenue	2.5	1.8	2.5	-0.7	+35.0%
Fiscal Deficit	**-13.8**	**-10.3**	**-4.0**	**-6.3**	**-61.2%**

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

PUBLIC DEBT IN FOCUS

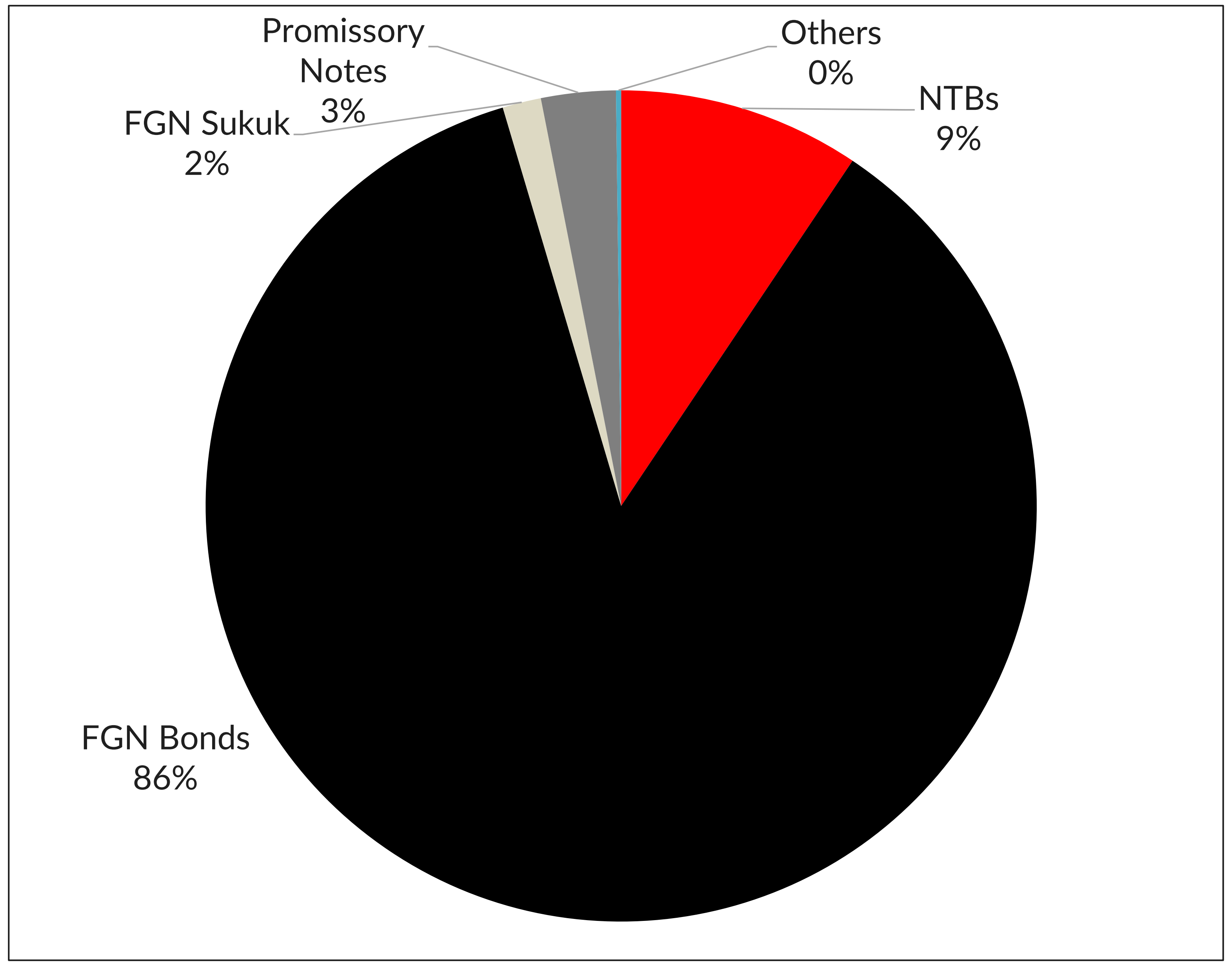
CORONATION

Public debt stock (N'trn)

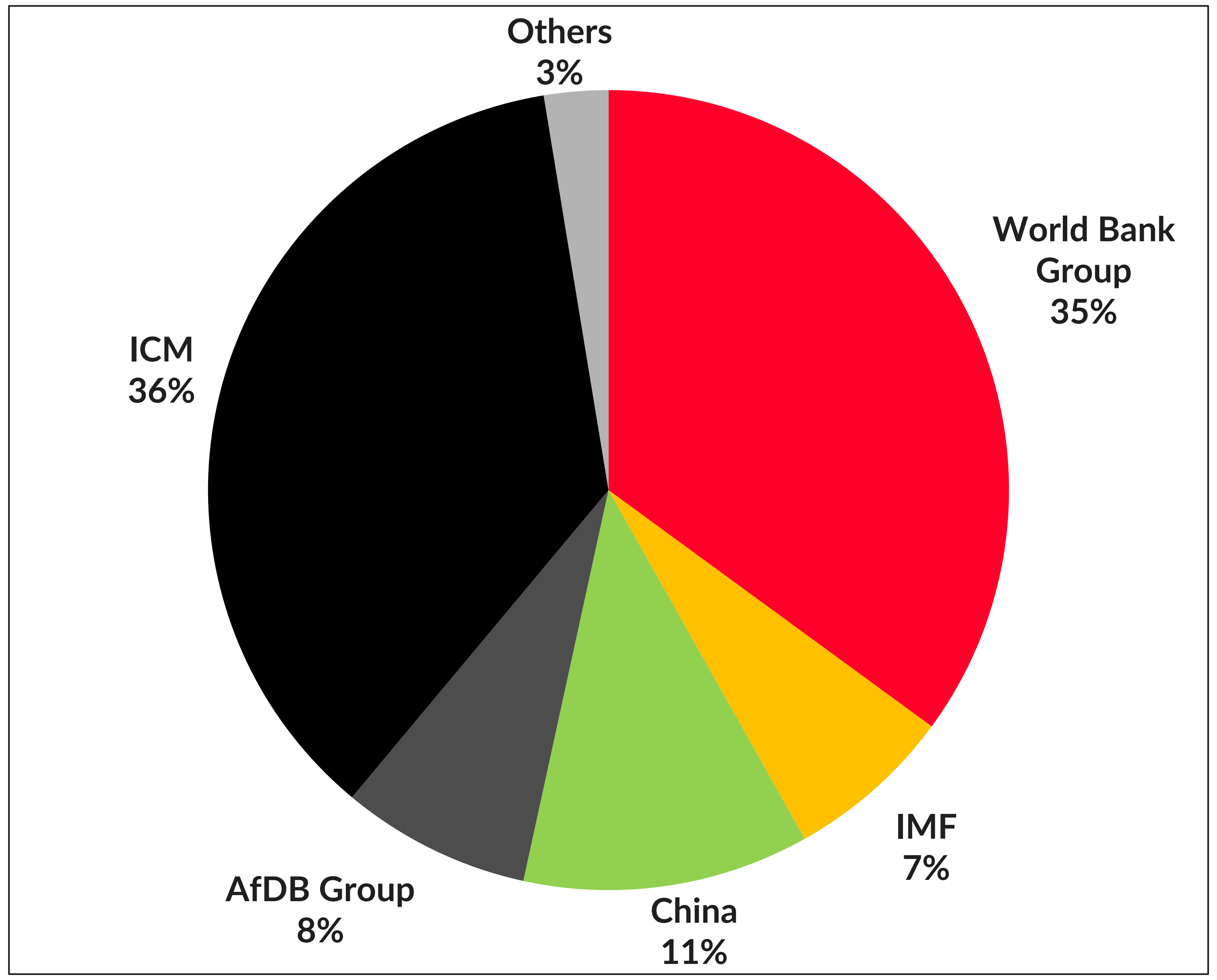


Sources: DMO, Coronation Merchant Bank Economic Research

Composition of domestic debt as at end-September '23 (% share)



External debt by lender group at end-September'23 (% share)



- ✓ As at end-September '23, total public debt stood at N87.9trn (inclusive of ways and means). On a q/q basis, it increased by 0.6% from N87.4trn at end- June '23. On a y/y basis, public debt increased by 99.5%.
- ✓ Domestic debt increased by 3.3% q/q to N55.9trn There were q/q increases recorded across FGN bonds (2.9% q/q), FGN Savings bond (10.5% q/q) and promissory notes (89.6% q/q). The domestic debt for states and the FCT declined by -1.2% q/q to N5.7trn at end September '23 from N5.8trn recorded at end-June '23. On a y/y basis, it grew by 7.1%. The most indebted states include Lagos (N960.4bn), Delta (N371.4bn), Ogun (N293.2bn), Rivers (N232.5bn) and Imo (N218.8bn). The total domestic debt stock accounts for 63.6% (N55.9trn) of total public debt.
- ✓ External debt stock declined by -3.7% q/q to N31.9trn (USD41.5bn) at end-September '23 compared with N33.2trn (USD43.1bn) recorded at end-June '23. Multilateral lenders such as the World Bank, IMF, AFDB, as well as bilateral lenders like China, Japan, India, and France collectively accounted for 63% of total external debt while commercial loans (Eurobonds and Diaspora bonds), and syndicated loans accounted for 37%. Overall, the external debt stock accounts for 36.4% (N31.9trn or USD43.1bn) of total public debt.

DEBT SUSTAINABILITY RATIOS

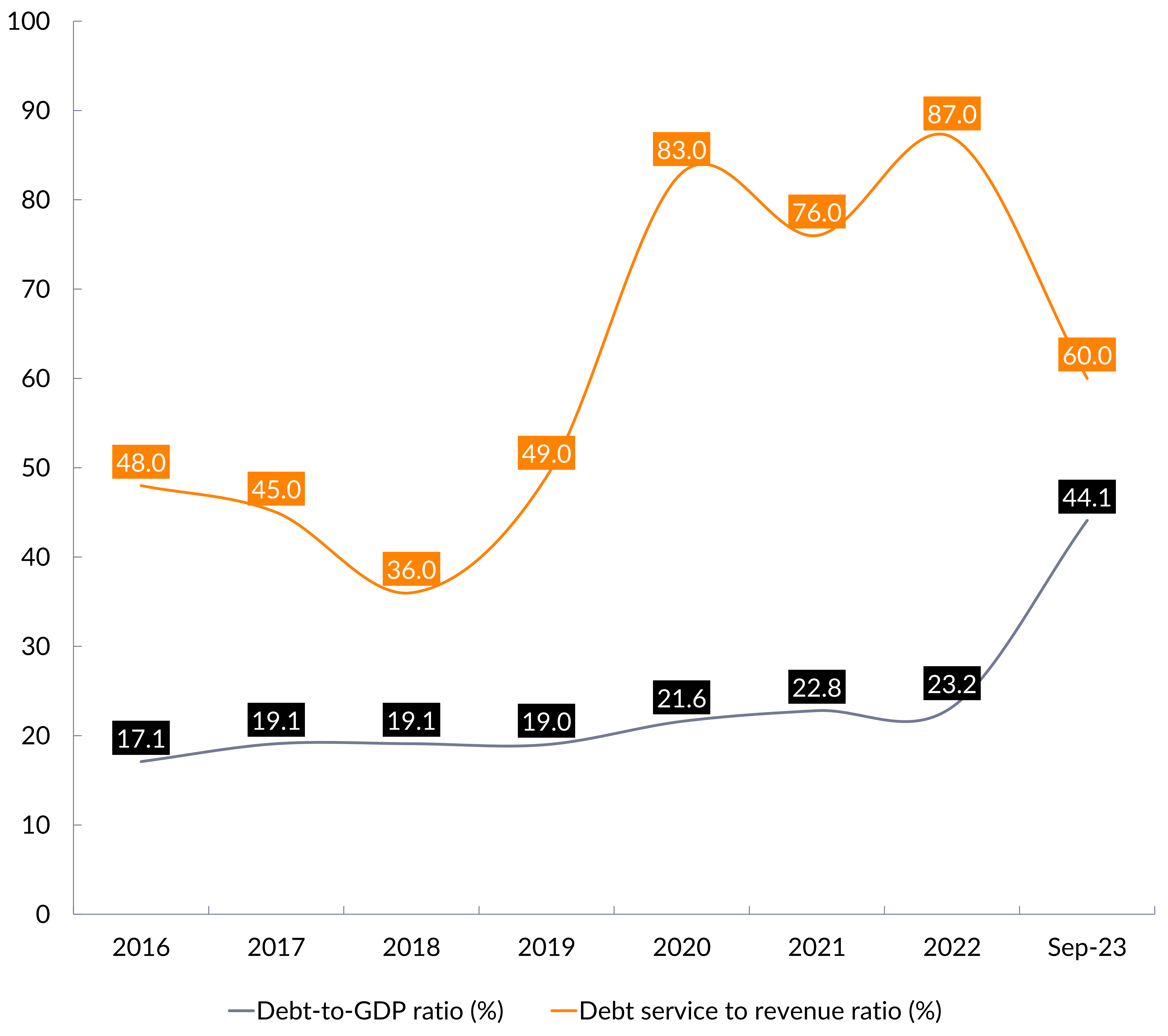
CORONATION

- ✓ We note the senate's approval to securitize c.N7.3trn of the ways and means advances to a 40-year bond at 5% interest. In early 2023, N23trn was securitized to a 40-year bond at 9% interest. This brings the total amount of securitized ways and means advances to N30.3trn. Although securitization would reduce the cost of debt service and enhance debt transparency, it will concurrently elevate the total public debt stock to approximately N95.2trn. This represents 41.4% of the 2023 nominal GDP.

- ✓ This is above the DMO's debt-to-GDP artion target of 40% for 2020-2023. However, still below the limit of 55% set by the World Bank for countries within Nigeria's peer group such as Ghana (88.8%), Egypt (87.2%), Soth Africa (67.3%). We understand that an approval to raise the debt-to-GDP ratio limit is underway. However, monitoring the debtto-GDP ratio is crucial in assessing sustainability. Enhancing tax collection and improving fiscal discipline will contribute to a more sustainable debt trajectory.

- ✓ As at end-September '23, the FGN had spent c.N5.2trn on debt servicing (N3.2trn on domestic and N1.9trn on external). Based on the latest data in the public domain (i.e., as at end-September '23), the debt-service-to-revenue ratio stood at 60%. We expect debt service costs to remain elevated (in nominal terms) due to the impact of the fx liberalization policy and additional borrowing on the back of the FGN budget deficit

Debt-to-GDP ratio vs Debt-Service-to-revenue ratio (%)



Sources: DMO, Coronation Merchant Bank Economic Research

FISCAL - 2024 FGN BUDGET

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Highlights	2024 Budget (N' trn)	2023 Budget (N' trn)	Percentage change (%)
Aggregate revenue	**19.6**	**11.0**	**+78.2**
Oil revenue	9.2	2.2	+260.9
Non-oil revenue	10.4	2.5	+315.6
Aggregate expenditure	**28.7**	**24.8**	**+15.7**
Statutory transfers	1.7	9.9	-82.8
Recurrent non-debt	8.7	9.3	-6.5
Debt service	8.2	6.6	+24.2
Capital expenditure	9.9	8.4	+17.9
Capex as a percentage of total expenditure (%)	34.9	33.9	+1%
Projected deficit	**-9.1**	**-13.8**	**-34.1**

Assumptions	2024 Budget	2023 Revised Forecast (as at July 2023)	Percentage change (%)
Benchmark oil price (USD/b)	77.96	75.00	+3.9
Oil production (mbpd)	1.78	1.72	+3.5
Exchange rate (N/USD)	800	700	+14.3
Target inflation (%)	21.40	17.16	+24.7
GDP growth rate (%)	3.76	3.75	+0.3

Financing	2024 Budget (N 'trn)
Privatization proceeds	2.98
Multi-lateral/Bi-lateral project –tied loans	1.1
New Borrowings	7.8
Domestic Borrowing	6.1
Foreign Borrowing	1.7

- ✓ The 2024 FGN Budget, titled "Budget of Renewed Hope," was signed by President Bola Ahmed Tinubu on 02 January'24. There were a few revisions made. The aggregate expenditure is estimated at N28.7trn which is 11.9% or N1.2trn higher than the initially proposed N27.5trn. This figure is 15.9% higher than the 2023 FGN budget of N24.82trn.

- ✓ Notably, the allocation to capital expenditure in the approved 2024 budget rose by 13.8% to N9.9trn, accounting for 34.5% of the total expenditure, compared to the initial proposed figure of N8.7trn. The increased capital spending aligns with the FGN's intent to reduce the country's infrastructure deficit gap. We note that the 2024 budget estimates point towards a fiscal deficit of N9.1trn (approximately 3.88% of the 2024 estimated nominal GDP), which is considerably lower than N13.8trn estimated in the 2023 FGN budget.

- ✓ The estimated revenue to fund the 2024 budget was revised upward to N19.6trn, 78.2% higher than the 2023 provision of N11trn. The breakdown of this revenue estimate shows that N9.2trn (46.9%) is expected from oil-related sources while the balance of N10.4trn (53.1%) is expected from non-oil sources. Overall, the revenue projections point towards expectations of improved revenue inflow, on the back of the removal of PMS subsidy, fx depreciation following the fx liberalization policy, and increased collection of non-oil taxes

- ✓ In our view, achieving the proposed revenue target in 2024 would require deliberate efforts towards tackling the challenges in the oil sector. Average oil production from January - November '23 was 1.46mbpd. This is below the FGN 2023 oil production target of 1.72mbpd. It is worth highlighting that actual non-oil revenue has exceeded FGN's target by an average of 9.4% since FY2021. Additionally, as at end-September '23, we note an overperformance of non-oil revenue (N2.5trn exceeding the prorated target of N1.8trn).

- ✓ We expect the FGN to increase its tax mobilization initiatives and further enhance independent revenue generation and collection efforts, especially from government-owned enterprises (GOEs).

- ✓ The proposed fiscal deficit of N9.1trn is expected to be financed by new borrowings totaling c.N7.8trn (domestic: c.N6trn, external: c.N1.7trn). Other sources of deficit financing include privatization proceeds of c.N298.4bn and drawdowns on bilateral/multilateral projects/programs of c.N941.1bn.

CREDIT RATING VIEWS (S&P, FITCH & MOODY'S)

	LATEST CREDIT RATING	POTENTIAL REVIEW
Moody's	✓ Moody's upgraded Nigeria's outlook to positive from stable and affirmed its Caa1 long term foreign currency and local currency issuer ratings. ✓ The positive outlook reflects the possible reversal of the deterioration in Nigeria's fiscal and external position as a result of the FGN's reform efforts i.e subsidy removal and fx liberalization.	✓ Moody's would likely upgrade Nigeria's ratings if the risks from higher inflation and FGN borrowing costs are effectively contained while the FGN continues with reforms .Evidence of fiscal consolidation that is supportive of the monetary tightening efforts to control inflation would indicate that the risks are receding. Additionally, strong non-oil revenue performance and improvements in oil production would exert upward pressure on the rating. ✓ Moody's will likely change its outlook if inflation gets increasingly out of control and the FGN's access to funding remains highly constrained.
Fitch Ratings	✓ Fitch affirmed Nigeria's Long-Term Foreign-Currency Issuer Default Rating at 'B-' with a Stable Outlook. ✓ The stable outlook reflects the FGN's steps to reduce fuel subsidies and reform the exchange rate framework much more quickly than anticipated, but also the lower degree of price discovery in the fx market and weak net fx reserve position.	✓ There could be further downgrades, if there is greater risk of intensification of external liquidity stress potentially illustrated by a further decline in the CBN's net fx position, e.g. due to lower oil receipts, severely constrained external financing sources, or failure to execute fx reforms that contributes to capital outflows. Others include; widening fiscal deficit, entrenched high inflation and loose monetary policy settings. ✓ On the other hand, a positive rating action could be considered if there is a reduction in external vulnerabilities due to a sustainable recovery in the CBN's fx position and easing of domestic fx supply constraints. Others include; sustained increase in oil revenue, stronger mobilisation of domestic non-oil revenue and sustained reduction of inflation and distortions in the fx market.
S&P Global Ratings	✓ S&P affirmed Nigeria at 'B-/B' long- and short-term foreign and local currency sovereign credit ratings on Nigeria. The rating agency also affirmed its national scale ratings at 'ngBBB+/ngA-2' long- and short-term Nigeria The outlook is stable. ✓ The stable outlook balances the FGN's capacity to continue the reform agenda, which, if delivered, should support growth and fiscal outcomes, against below-potential oil production and risks to macroeconomic stability.	✓ Another downgrade is possible if, S&P Global sees increasing risks to Nigeria's capacity to repay commercial obligations. This could arise from significantly reduced fx reserves, much higher fiscal deficits or debt-servicing needs, or because domestic financial markets are unwilling to absorb additional local currency debt issuance. ✓ On the other hand, S&P Global could raise their ratings if Nigeria's economic performance significantly exceeds their forecasts, and fiscal and external imbalances improve significantly.

Fixed Income

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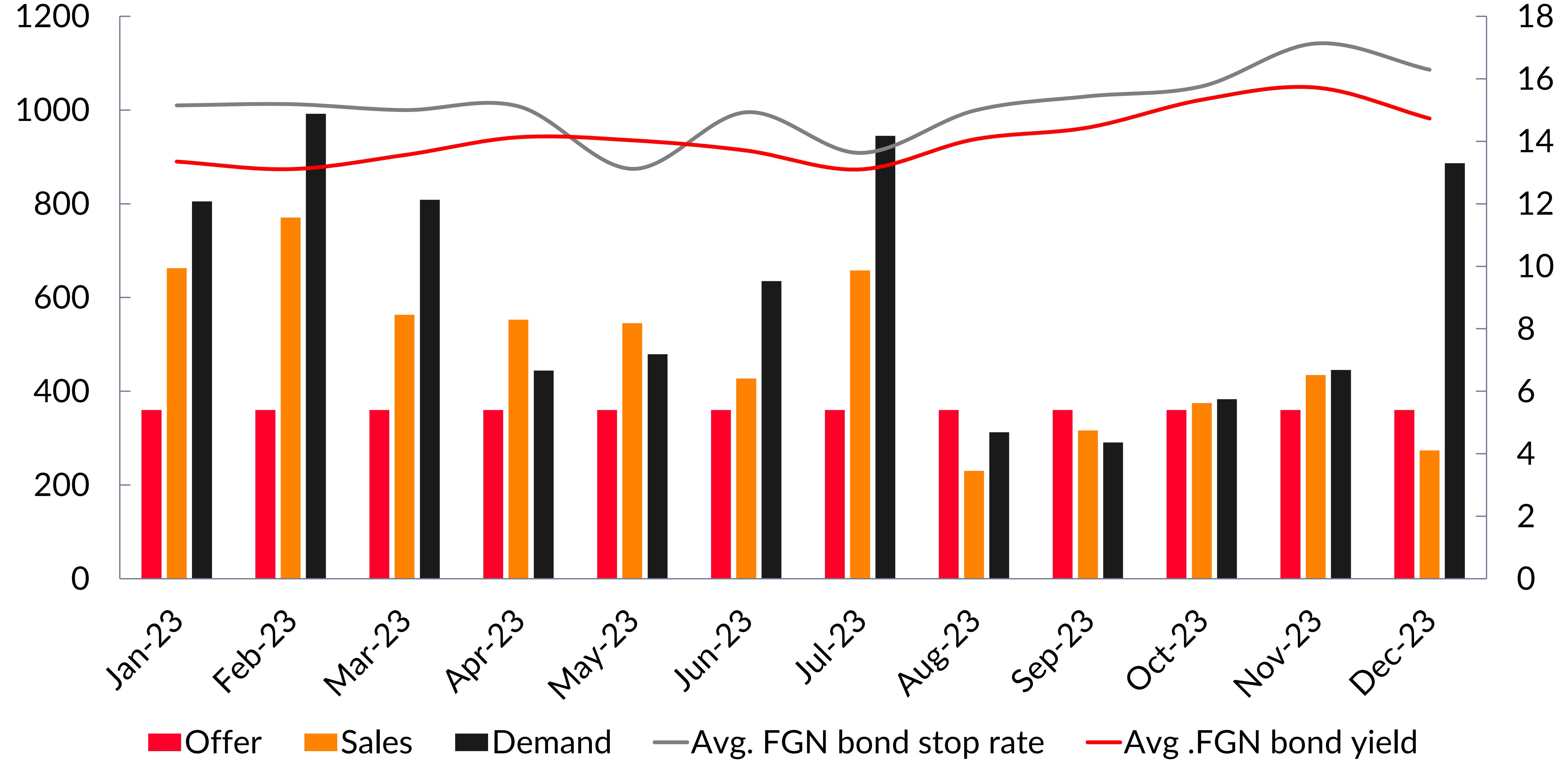
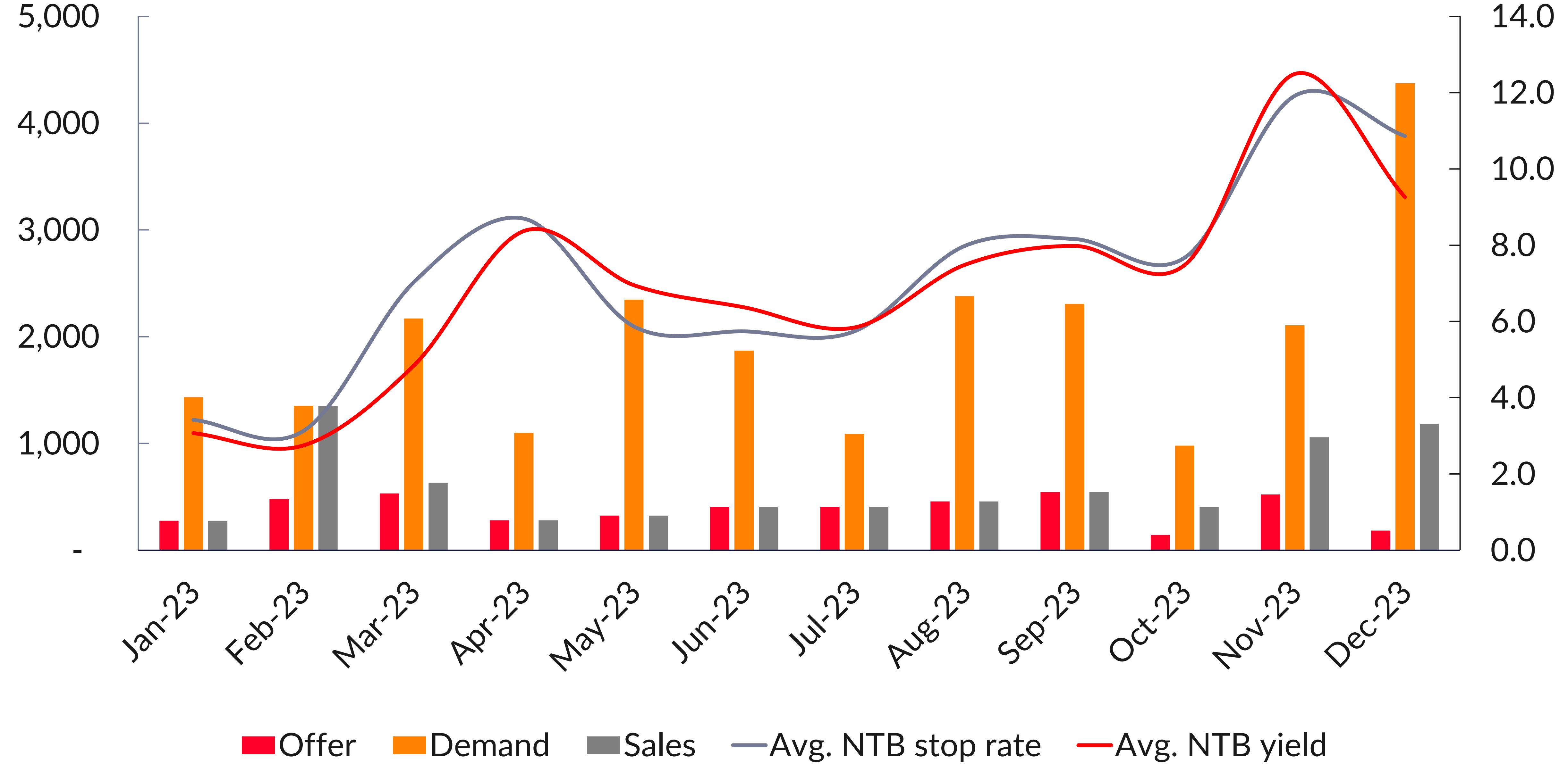
Offer, Demand, Sales at FGN bond auction vs Movement in Avg. FGN bond stop rate and Avg. FGN bond yield



Offer, Demand, Sales at FGN NTB auction vs Movement in Avg. FGN NTB stop rate and Avg. FGN NTB yield



Sources: DMO,FMDQ, CBN, Coronation Merchant Bank Economic Research

- ✓ Factors that influenced market activities include; CBN's tight monetary policy stance, the FGN's borrowing needs and the normalization of CRR debits which increased system liquidty. Other reasons include; the return to policy orthodoxy with the resumption of OMO auctions and the removal of the N2bn daily limit on funds placed at the Standing Deposit Facility (SDF) window. This allows the CBN manage liquidity and attract investments through attractive nominal rates.

- ✓ In 2023, the FGN's domestic borrowing target via FGN Bonds was N4.3trn. However, based on our estimates, the FGN frontloaded borrowings and c.N5.8trn was raised from cumulative FGN bond issuances (exceeding the target by 34.9%). This is 82.5% of the total domestic borrowing target of N7.04trn. The average stop rate during the year was 15.1%. However, trading in the secondary market for FGN bonds was bearish. The average yield increased by +94bps y/y to close at 13.9%.

- ✓ Meanwhile, in the primary market for NTBs, we observed gross NTB issuance of N6.7trn and net NTB issuances of N1.6trn. The stop rate averaged 7.3% across all tenors. Given the passage of a supplementary budget of N2.17trn in H2 '23, we noticed that the DMO sold 2.03x and 6.41x the offered size in November and December '23 potentially to fund the supplementary budget. Trading in the secondary market for NTBs was bearish, as the average yield for NTBs increased by 150bps y/y to close at 6.9%.

- ✓ The CBN resumed its previously suspended OMO sales with four auctions in 2023. Total sales was N728bn, and the avg. stop rate was 13.3% as demand remained high. Trading in the secondary market for OMO bills was bullish, as the average yield increased by+510bps y/y to close at 8.5%.

FIXED INCOME OUTLOOK

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GLOBAL FINANCIAL CONDITION EXPECTED TO REMAIN TIGHT

- ✓ Given the slowdown in inflation seen in select economies, central banks have slowed the pace of interest rate increases and appear to have reached the peak of the current monetary policy tightening cycle. However, our expectation is that the monetary policy rates will remain elevated (least in H1 ’24) as inflation remains above central bank targets.
- ✓ We expect the FGN to consider a Eurobond issuance once global interest rates start declining and the domestic macroeconomic environment improves.

TIGHT DOMESTIC MONETARY POLICY

- ✓ We suspect continuous inflation targeting posture by MPC, as the headline inflation remains elevated with multiple rate hikes in H1 ‘23.

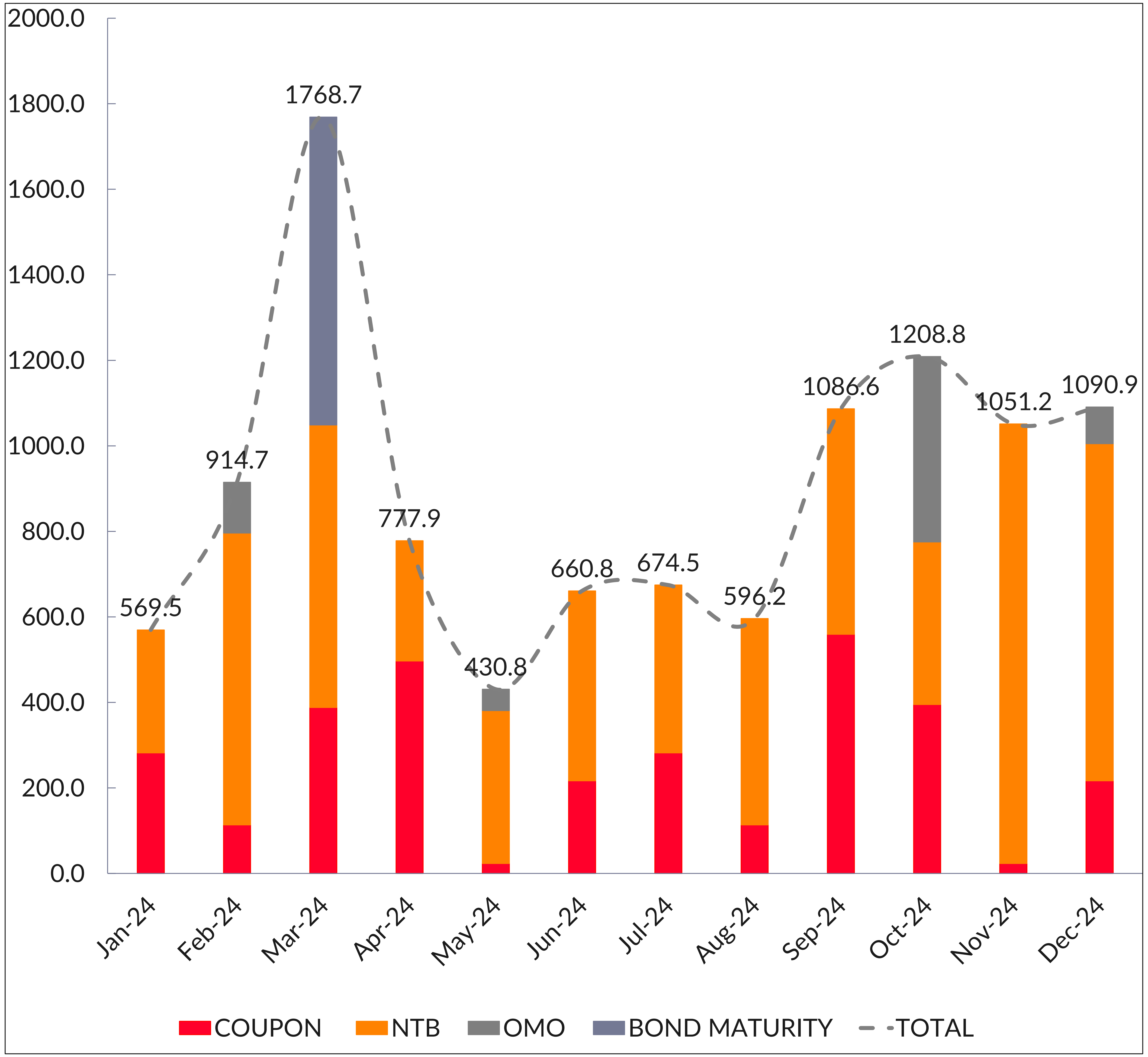
MATURITY PROFILE/SYSTEM LIQUIDITY

- ✓ We expect liquidity to remain elevated in 2024. Our in-house inflow estimate shows a spike in March ’24, due to the maturity of an FGN bond worth N719.9bn. However, system liquidity is projected to be relatively low between May to August ’24 . We expect the CBN to continue focus on system liquidity management via frequent OMO auctions and CRR/LDR debits.

FGN DOMESTIC BORROWING

- ✓ The 2024 budget deficit is expected to be financed partly through new borrowings of N7.8trn. The majority of borrowing (N6.1trn) will be done domestically, while the balance (N1.7trn) externally. Given that the ICM remains expensive for emerging economies like Nigeria, we expect domestic issuances to exceed projected FGN estimates. Overall, we expect fixed income yield to remain elevated in 2024.

2024 Maturity Profile (N ‘bn)



Sources: FMDQ, Coronation Merchant Bank Economic Research

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Trade Dynamics

GLOBAL TRADE

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✓ **GLOBAL TRADE**

According to data from the World Trade Organization (WTO), merchandise trade declined by -8.2% y/y to US11.8trn in Q3 '23 compared with USD12.9trn recorded in the corresponding period of 2022. Meanwhile, on a q/q basis, total merchandise trade declined marginally by -1.4%. The decline can be partly attributed to weakened global demand as well as shifts in its composition toward domestic services, the effects of a stronger USD and rising trade barriers.

The Black Sea grain deal was terminated by Russia in July '23, leading to rising food prices in import-dependent countries. However, Ukraine discovered a new corridor (the Danube River) to export its grains. As at end '23, Ukraine had exported over 5.6 million metric tons of grain and other products through this corridor.

CHINA TRADE

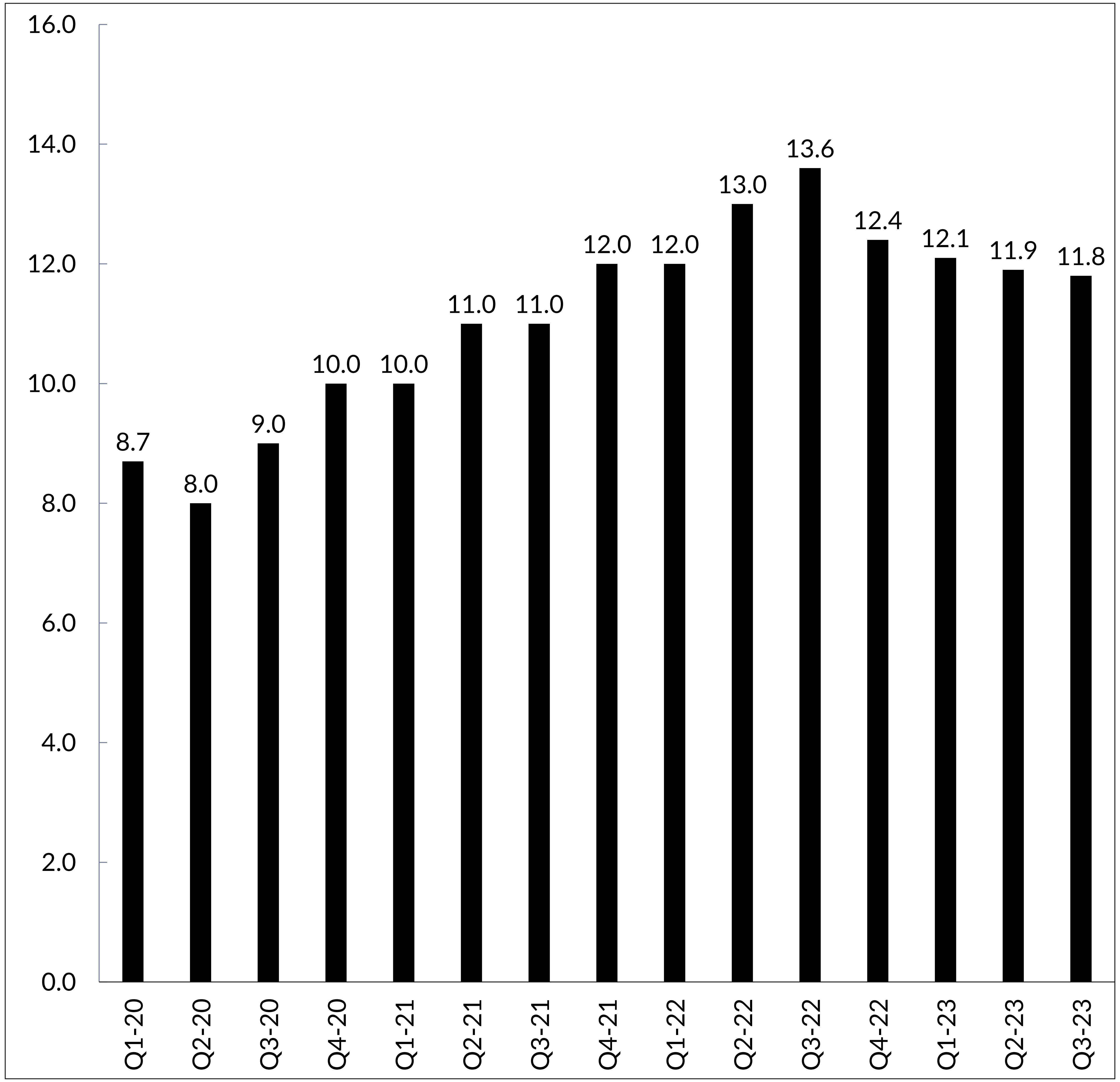
Turning to China, despite the challenges posed by the property sector, trade exports increased by 0.9% q/q to USD861bn in Q3 '23 compared with USD853.6bn recorded in Q2 '23. Notably, China's PMI increased marginally to 50.9 in February '24 from 50.8 in January '24. We expect a loosening or a hold monetary policy stance in the near-term as China continues to seek ways to bolster its economy amid the downturn in its property sector.

✓ **AFRICA TRADE**

In Africa, total merchandise trade declined by -3.3% q/q to USD312.6bn in Q3 '23, compared with USD323.3bn in Q2 '23. It is worth noting that the region recorded a trade deficit of -USD23.1bn in Q3 '23. It is worth highlighting that resource rich economies like South Africa recorded a trade surplus in Q3 '23.

Meanwhile non- resource rich economies like Kenya and Egypt recorded trade deficits in Q3 '23. The United Nations Conference on Trade and Development disclosed that, in 2019, intra-African trade accounted for less than 15% of total exports among African countries. This suggests that there are potential benefits from increased regional trade.

Global Merchandise Trade (USD 'trn)



Source: WTO, Coronation Merchant Bank Economic Research

TRADE - NIGERIA IN FOCUS

CORONATION

✓ **TOTAL TRADE**

The latest report from the National Bureau of Statistics (NBS) in its series on foreign trade in goods shows the total value of trade grew by +128.6% y/y to N26.8trn in Q4 '23 vs +53.2% y/y in Q3 '23. On a q/q basis, it increased by 42.5%. For FY2023, total trade grew by +33.3% y/y to N69.8trn vs +31.8% y/y in FY 2022. Total trade as a percentage of nominal GDP (2023) stood at 30.4% in 2023, compared with 26.3% in 2022.

✓ **EXPORTS**

The total export value increased by 22.7% q/q to N12.7trn compared with N10.4trn recorded in Q3. This can be partly attributed the c.20% depreciation of NGN/USD recorded in Q4 '23. For FY2023, total exports increased by 34.2% y/y to N35.9trn

In 2023, the top six export destinations were Netherlands with exports valued at N4.5trn (12.6%), Spain N3.3trn (9.4%), India N3.0trn (8.4%), the United States N2.6trn (7.3%), France N2.3trn (6.5%), and the Economic Community of West African States (ECOWAS) N2.2trn (6.2%). These destinations collectively accounted for 50.4% of total exports in 2023.

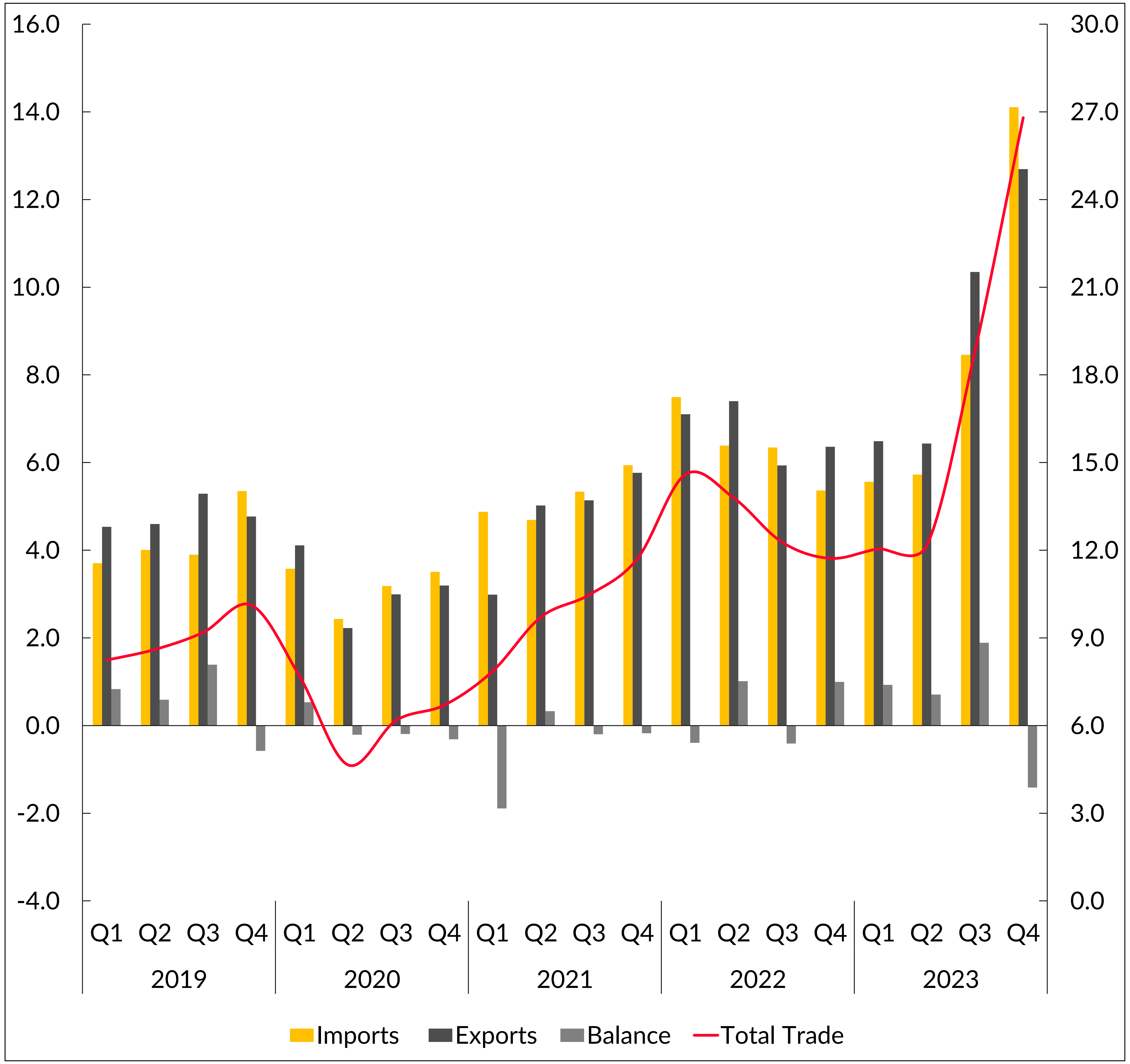
✓ **IMPORTS**

The import value increased by 66.8% q/q to N14.1bn from N8.5trn. We note that imports were affected by the weaker naira following the fx liberalization policy. For FY2023, the value of imports increased by +32.3% to N33.85trn. The top six import sources were China N6.6trn (19.5%), India N2.8trn (8.5%), USA N2.2trn (6.6%), Netherlands N1.8trn (5.3%), Brazil N810bn (2.4%), and the UK N688bn (2.0%). These countries collectively accounted for 44.4% of total imports in 2023. Imports from ECOWAS stood at N168bn, representing 19% of total imports within Africa.

✓ **TRADE BALANCE**

The net result was a deficit of -N1.4trn in Q4 '23, compared to a surplus of N1.9bn recorded in Q3 '23. However, for FY2023, Nigeria recorded a surplus of +N44.7bn Overall, we expect the country's external position to remain vulnerable to fluctuations in global oil price and weak domestic oil production.

Import, export & trade balance (N 'trn)



Source: NBS Coronation Merchant Bank Economic Research

Public

Trade Dynamics

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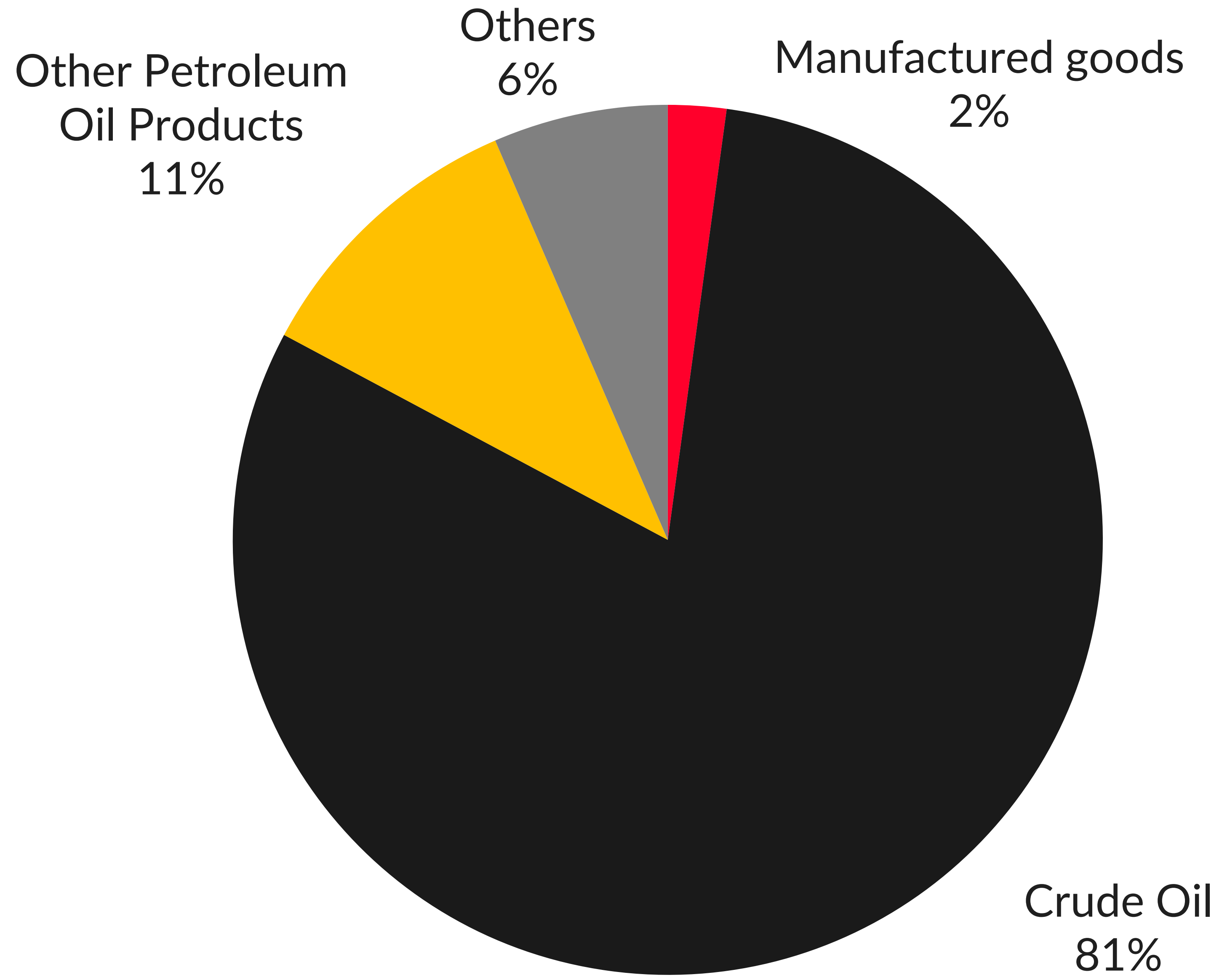
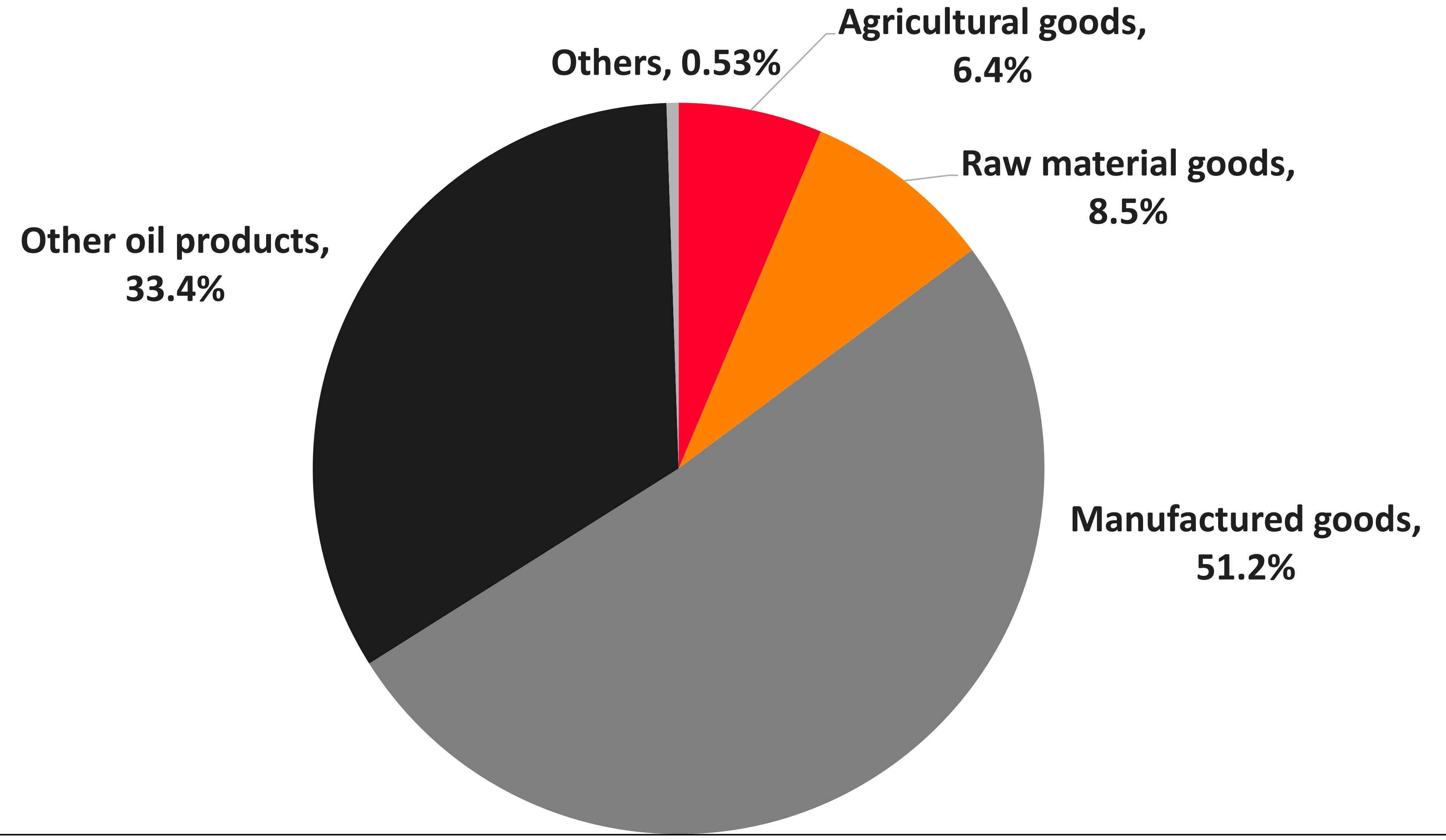
% Share of Total Exports in 2023



% Share of Total Imports in 2023



Sources: NBS, Coronation Merchant Bank Economic Research

- ✓ Crude oil accounted for 80.6% of total exports in 2023, its export value grew by 37.4% y/y to N29trn vs +46.4%y/y recorded in 2022. Based on a separate data from the NURPC, average crude oil production (condensates inclusive) in 2023 was 1.47mbpd compared with 1.38mbpd in 2022. This is lower than the OPEC production quota for Nigeria which was 1.7mbpd.

- ✓ Non-oil exports grew by 22.2% y/y to N6.9trn and accounted for 19.4% of total exports. Superior quality cocoa beans, cut flowers, sesamum seeds, soybeans, natural cocoa butter, soya beans, crude groundnut oil, frozen shrimps and prawns, shelled cashew nuts, crude palm kernel oil, and ginger among others were featured as top export commodities in 2023. Nigeria exported goods worth N2.2trn to ECOWAS, compared with N1.7trn in 2022. This represented 60.2% of total exports within Africa.

- ✓ Manufactured goods accounted for the largest share of imports, 51.2% and its import value grew significantly by 66.9%y/y. Following closely, petroleum oil products accounted for 33.42% of imports, and grew by 18.8%y/y. Raw materials accounted for 8.4%. Conversely, solid minerals registered a modest share of 0.53%. Agricultural goods followed suit with a 6.35% share, experiencing a notable growth in value of 22.3% y/y.

- ✓ We note that the significant uptick in imports in 2023 can be partly attributed to the 128% q/q increase in the import of manufactured goods from 3.9trn in Q3 '23 to N9trn in Q4 '24. Tanks and other armored motorized fighting vehicles, worth N5.1trn were purchased from Singapore, China, Netherlands and the US in Q4 '23

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2024 Outlook from Our Vantage Point

2024 Outlook from Our Vantage Point

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Looking ahead, the global macroeconomic environment is characterized by a delicate balance between optimism and caution. The resilience displayed by the global economy in the latter half of the previous year sets a foundation for cautious optimism, albeit amidst lingering challenges and potential turbulence. The anticipated steady global GDP growth of at least 3.1% y/y (as projected by the IMF), in addition to a gradual decline in inflation, offers a glimpse of hope for Nigeria's macroeconomic trajectory. Although the expected slower growth in major economies may temper external demand for Nigerian exports, opportunities arise from the projected growth in regions like South Asia, presenting avenues for collaboration and market expansion. Labor market trends, inflation dynamics, investment patterns, and trade dynamics all play pivotal roles in shaping Nigeria's economic outlook. The rapid advancement of artificial intelligence and the imperative of climate action further underscore the need for strategic foresight and proactive policymaking. In response to these challenges and opportunities, the FGN must adopt a holistic approach to economic management, balancing short-term imperatives with long-term sustainability goals. Prudent fiscal management, strategic infrastructure investment, and targeted interventions to address inflationary pressures and trade imbalances are imperative to ensure macroeconomic stability and resilience.

There are a handful of projections that indicate a promising trajectory, such as the FGN's GDP growth forecast of 3.76% y/y, slightly surpassing the previous year's estimate. This positive outlook is primarily underpinned by expectations of improved crude oil prices and production levels. However, this differs slightly from our in-house 2024 projection for GDP growth (in our base-case scenario) at 3% y/y. Nigeria's economic prospects are further bolstered by the positive sentiment reflected in the December 2023 Business Expectations Report, which highlights optimism across key sectors such as services, agriculture, and mining. This optimism stems from the anticipation of market-based reforms, private investment inflows, and SME-led growth initiatives, all of which are expected to enhance business confidence and stimulate economic activity. However, amid these promising indicators, it is essential to recognize the unique challenges and opportunities that each sector may face in the year ahead. For instance, the services sector is expected to maintain its dominance, driven by factors such as increased digitization, government partnerships, and expanded financial inclusion efforts. Similarly, the agriculture sector is poised for growth, supported by initiatives aimed at improving productivity, access to finance, and infrastructure development. A critical factor in 2024 is the anticipated moderation in pump prices of Premium Motor Spirit (PMS). This development is expected to have significant implications across various sectors, enhancing overall economic efficiency and resilience. Furthermore, concerted efforts to curb inflation, facilitated by the CBN's inflation-targeting policy, alongside anticipated enhancements in agricultural productivity, are poised to bolster consumer confidence and purchasing power, fostering an enabling environment for business expansion.

2024 Outlook from Our Vantage Point

CORONATION

Based on our 2024 projections, Nigeria's macroeconomic environment presents a mixed picture. In our base case scenario, GDP growth is projected to improve slightly to 3% y/y, albeit still below the population growth rate. This suggests that while there may be economic expansion, the transmission effect on the real economy could be weak, with limited impact on business growth or consumption patterns. Inflation is expected to remain elevated, closing at 27.5% y/y, driven by persistent factors such as insecurity, foreign exchange depreciation, and the impact of the removal of petroleum subsidy. Despite a moderate dip, these fluctuations are largely attributed to statistical reasons rather than improvements in supply-side dynamics or the successful mitigation of demand-pull inflation. The average oil price forecast of USD82 per barrel is subject to periodic reviews due to its inherent volatility. Factors influencing this projection include non-OPEC oil production growth led by countries like the US, Brazil, Canada, and Guyana, as well as voluntary production cuts by key oil-producing countries in Q1 2024. Oil production levels are expected to remain within the range of 1.4 – 1.6 million barrels per day throughout the year.

Monetary policy is anticipated to tighten, with a cumulative +650bps rate hike in the MPR to reach 25.25% in our base-case scenario. Liquidity constraints in the foreign exchange market are expected to persist, driven by weak supply versus high demand dynamics. Despite conversations around government efforts to boost foreign exchange liquidity, there are concerns around impact pace.

In our downturn scenario, projections indicate more challenging conditions across key indicators. GDP growth is forecasted to slow to 2% y/y, while headline inflation is expected to spike to 33.6% y/y. Average oil prices could decline to USD70 per barrel, with production levels dropping to 1.1 – 1.2 million barrels per day. Monetary policy responses would likely involve further tightening, with the MPR potentially reaching 27.25%, accompanied by adjustments to other parameters such as the Cash Reserve Ratio (CRR). Furthermore, even tighter foreign exchange liquidity constraints are anticipated, leading to a significant depreciation of the Naira against the USD.

Although our base case scenario suggests modest economic growth and some stability, downside risks remain prominent, necessitating proactive policy measures and strategic planning to navigate the uncertainties ahead.

ABOUT US

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Corporate Banking

- ✓ International Trade Services
- ✓ Short Term Lending
- ✓ Medium to Long Term Facilities
- ✓ Bonds & Guarantees
- ✓ Structured Trade Finance

Global Market

- ✓ Liquidity Management
- ✓ Cash Management
- ✓ Foreign Currency Trading
- ✓ Interest Rate Trading

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Investment Banking

- ✓ Capital Markets
- ✓ Mergers and Acquisition
- ✓ Financial Advisory
- ✓ Project and Structured Finance

Private Banking

- ✓ Investments
- ✓ Lending
- ✓ Wealth Management
- ✓ Estate and Trust Planning

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