

The Nigerian Economy in 2023: A Brighter Economic Future?

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Presented at Jesus College, University of Cambridge on November 14, 2022

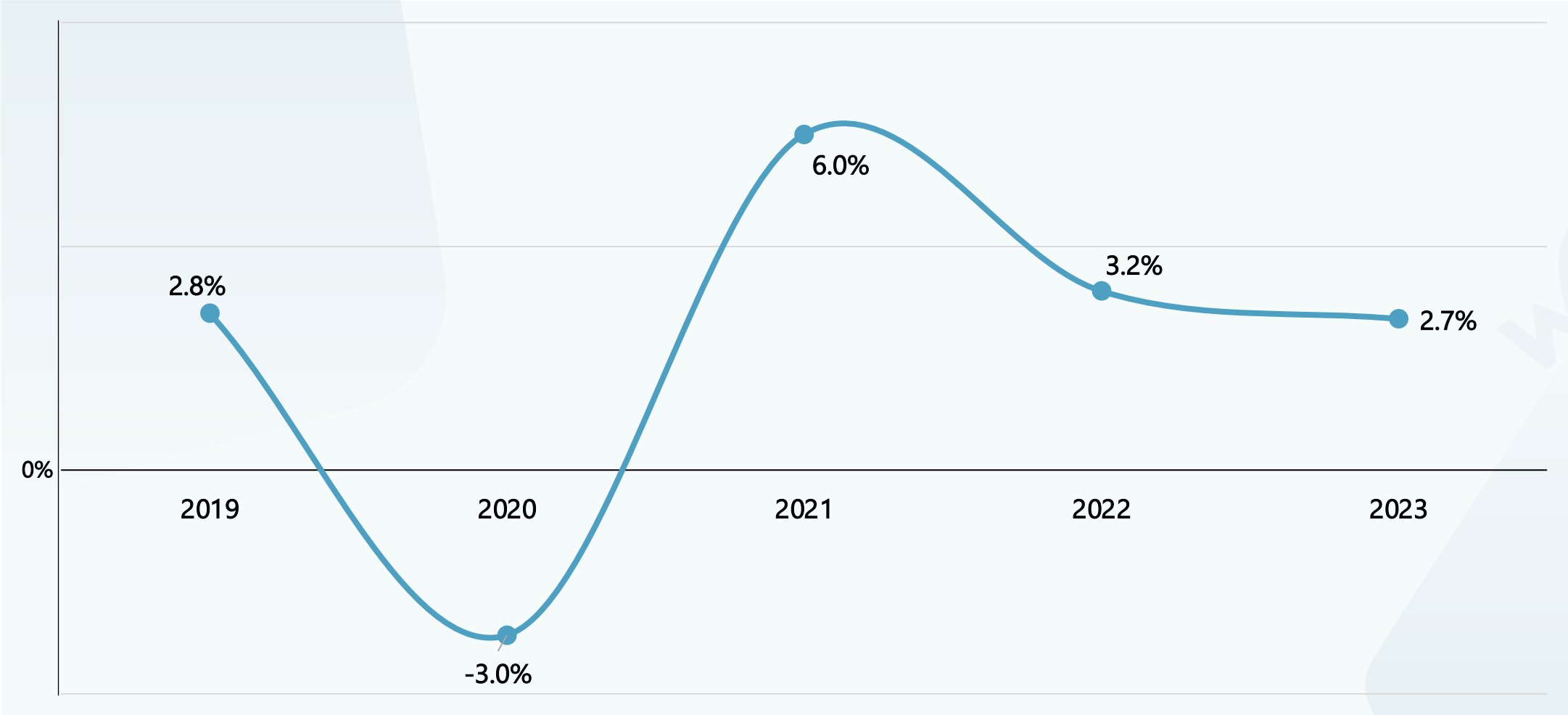
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- Overview of the Nigerian Economy
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Review of the Global Economy

Global GDP is expected to grow by 3.2% in 2022

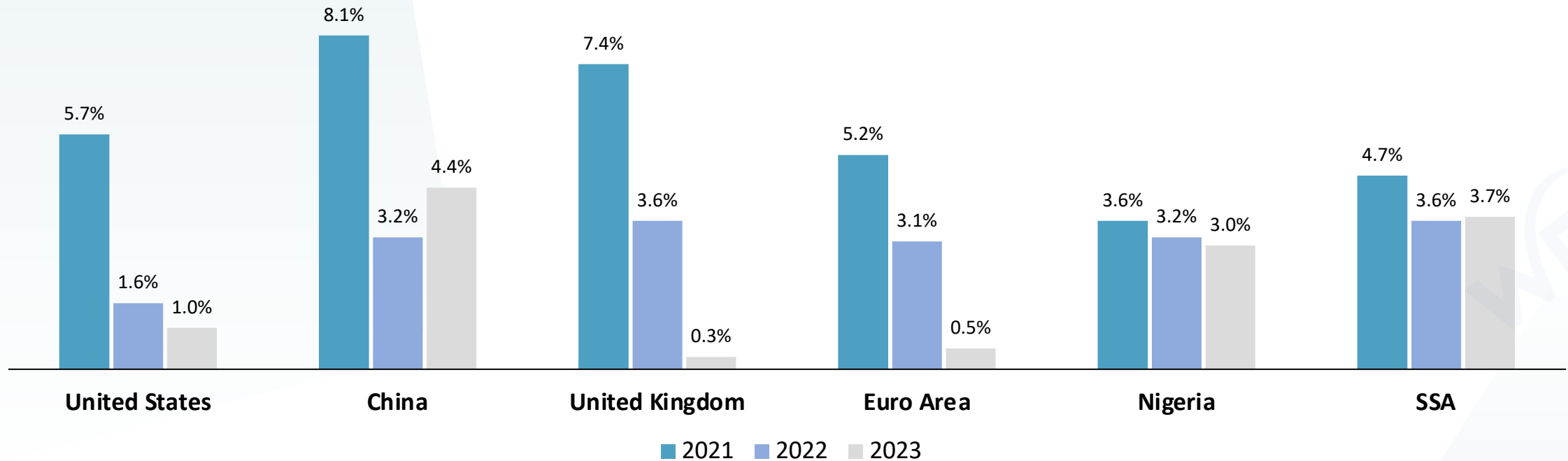
Global GDP Growth (%)



- Global growth remains fragile, with a weaker prospect for 2023

Emerging Economies and Developing Countries to drive Growth in 2022

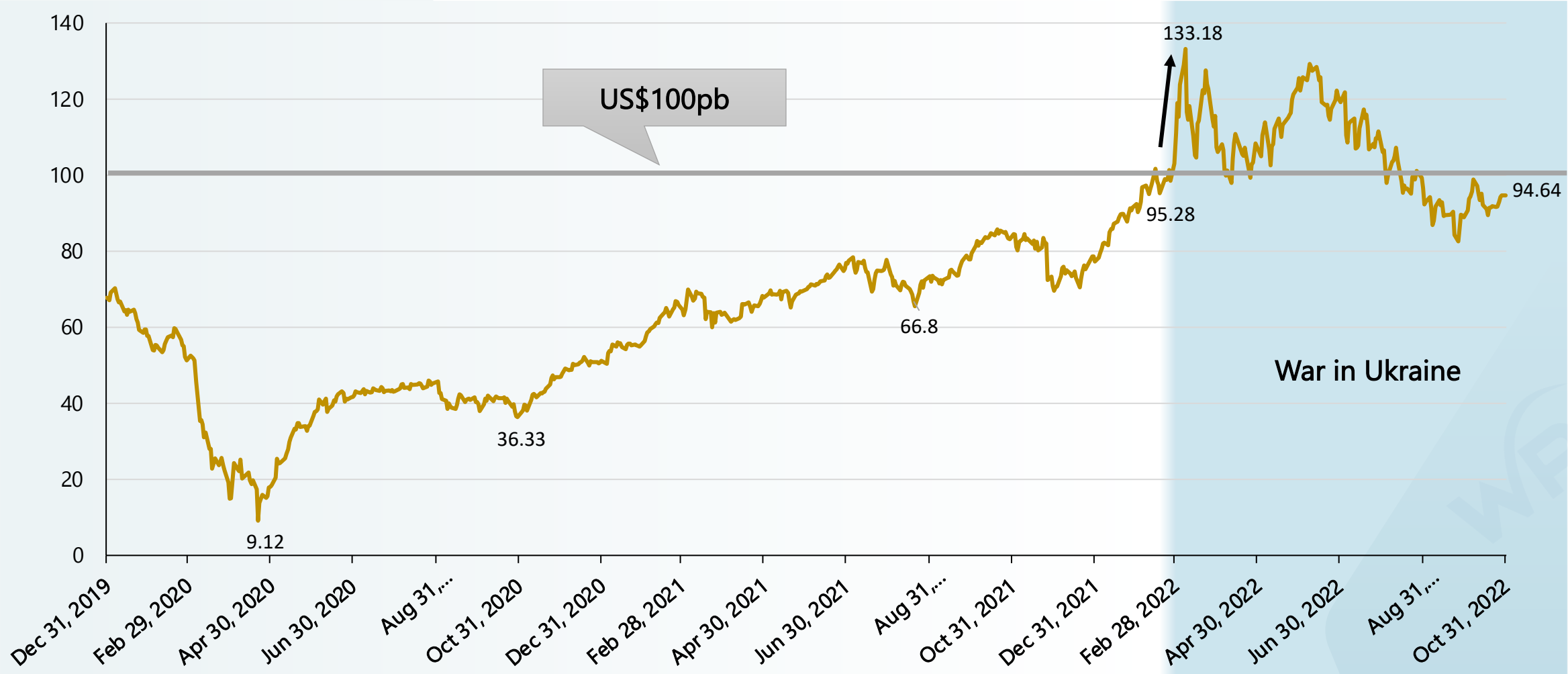
GDP Growth Across Countries/Regions



- Supply chain disruptions and rising energy prices will affect growth in 2022 and beyond.
- Oil producers will gain from rising energy prices; inflation remains a concern, not only for oil importers but also for oil producers.

War in Ukraine: Crude Oil Price rose to over US\$100 pb

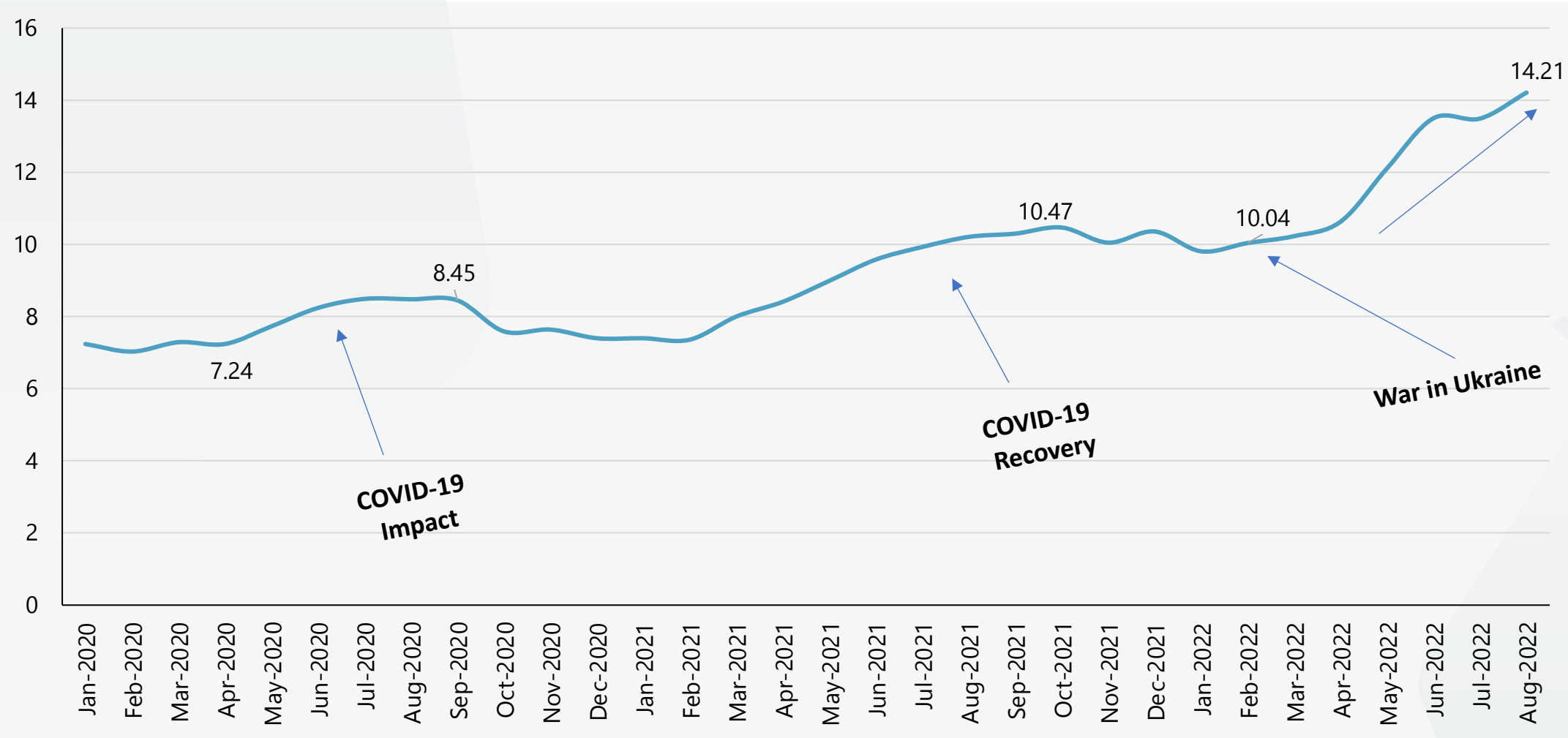
Europe Brent Spot Price FOB in US\$ Per Barrel



From Jan to Oct 2022, oil price averaged US\$104pb (2021 10-month av.: US\$69.5pb)

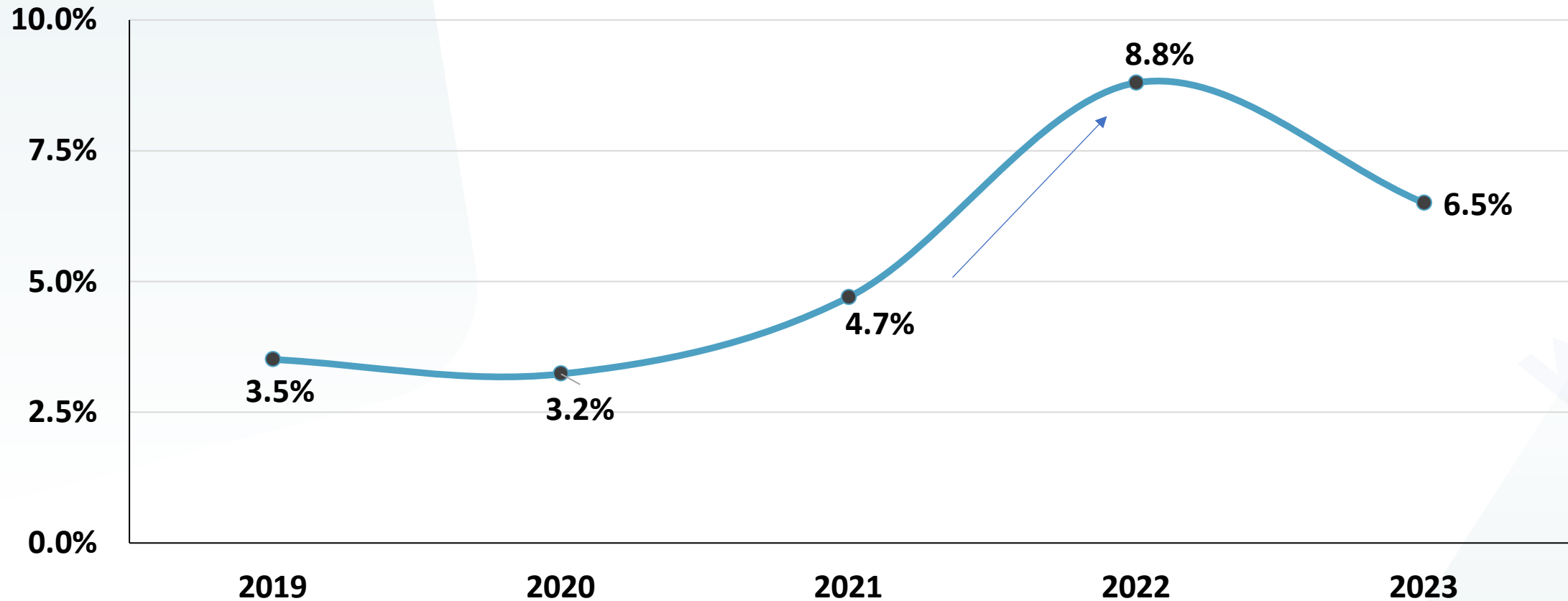
Natural Gas Prices keeps soaring

U.S. Price of Natural Gas Sold to Commercial Consumers (Dollars per Thousand Cubic Feet)



Global Inflation is expected to reach 8.8% in 2022

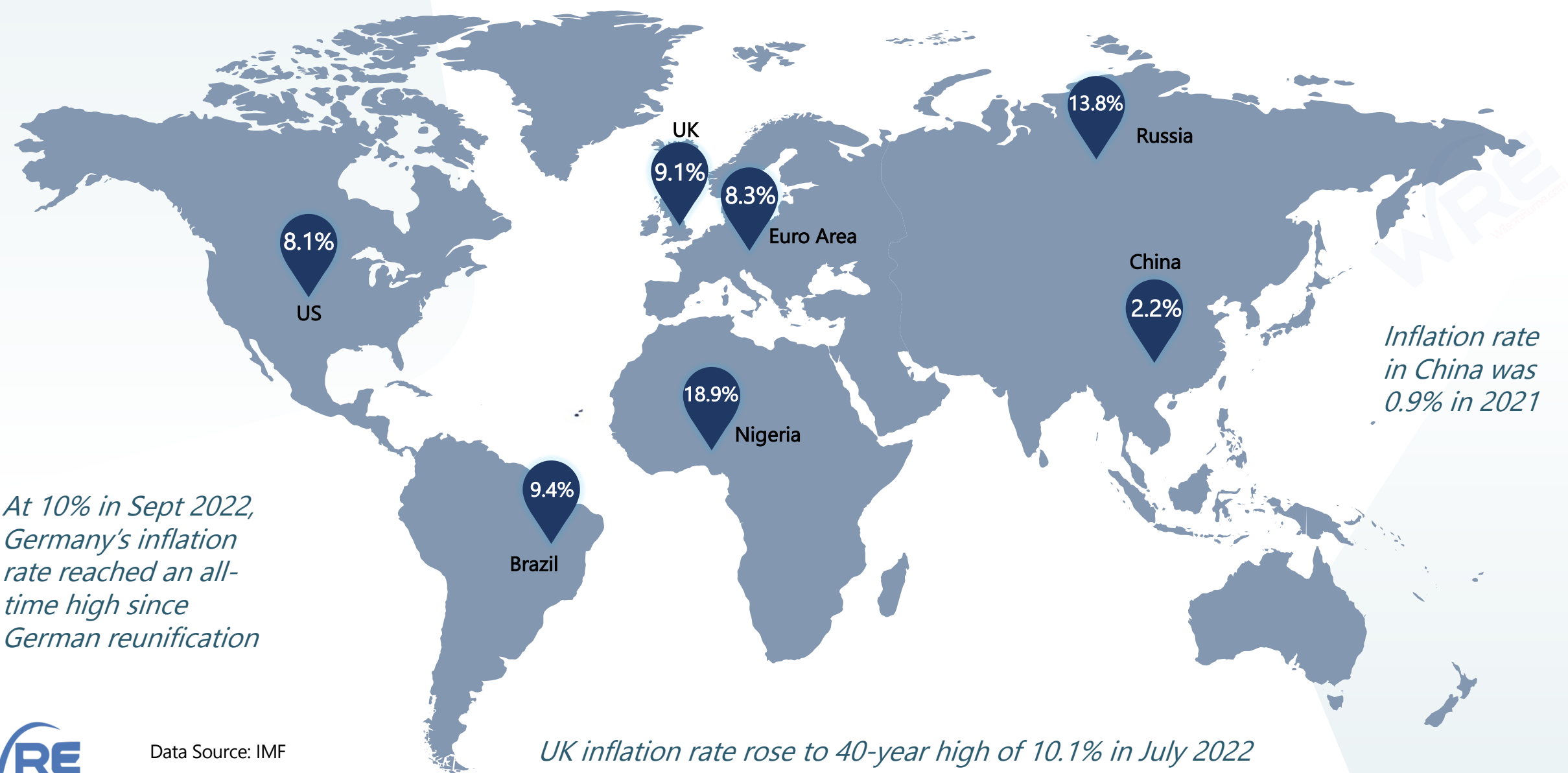
Global Inflation Rate (%)



- Higher energy prices, supply chain problems along with increased money supply have driven global inflation.

Inflation is reaching historical highs in many countries

Inflation Rate across countries/Euro Area



Data Source: IMF

What are the implications of rising prices?

Protests in France



#CostOfLivingCrisis, #Strikes, #Protests in many countries

Protests in Hungary



Outlook and Questions to think About



Global economic outlook depends on a lot of factors:

- The war in Ukraine and its implication – sanctions, commodity prices, supply chain, etc.
- COVID-19 is still a concern especially in China.
- Excessive monetary tightening could trigger a recession.



A lot of weight on fiscal policy across many countries.

- Public debt is rapidly increasing across countries.
- Immense pressure on fiscal authorities to deal with the crisis – political instability?
- Will they rise up to the challenge?



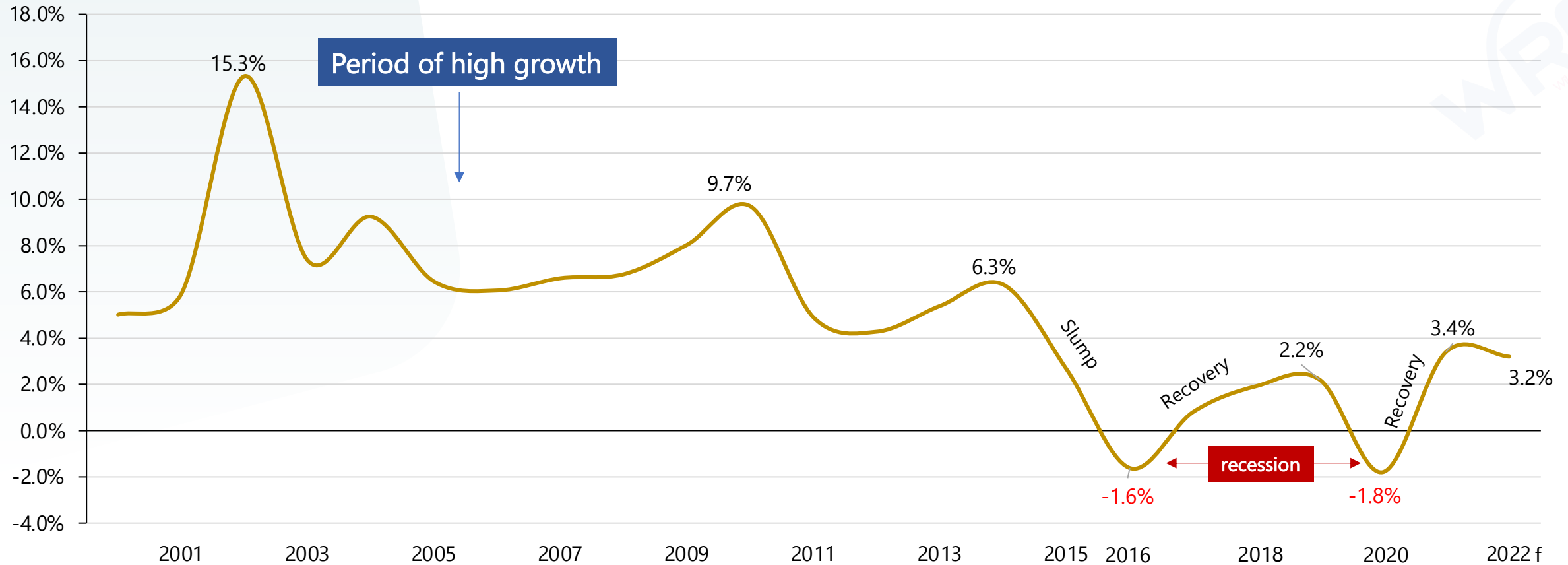
Are we approaching a post-capitalism era in view of rising inequality, impact of climate change and increasing role of fiscal authorities in addressing economic problems?

WRE
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Overview of the Nigerian Economy

Nigeria's GDP Growth has slowed over the years

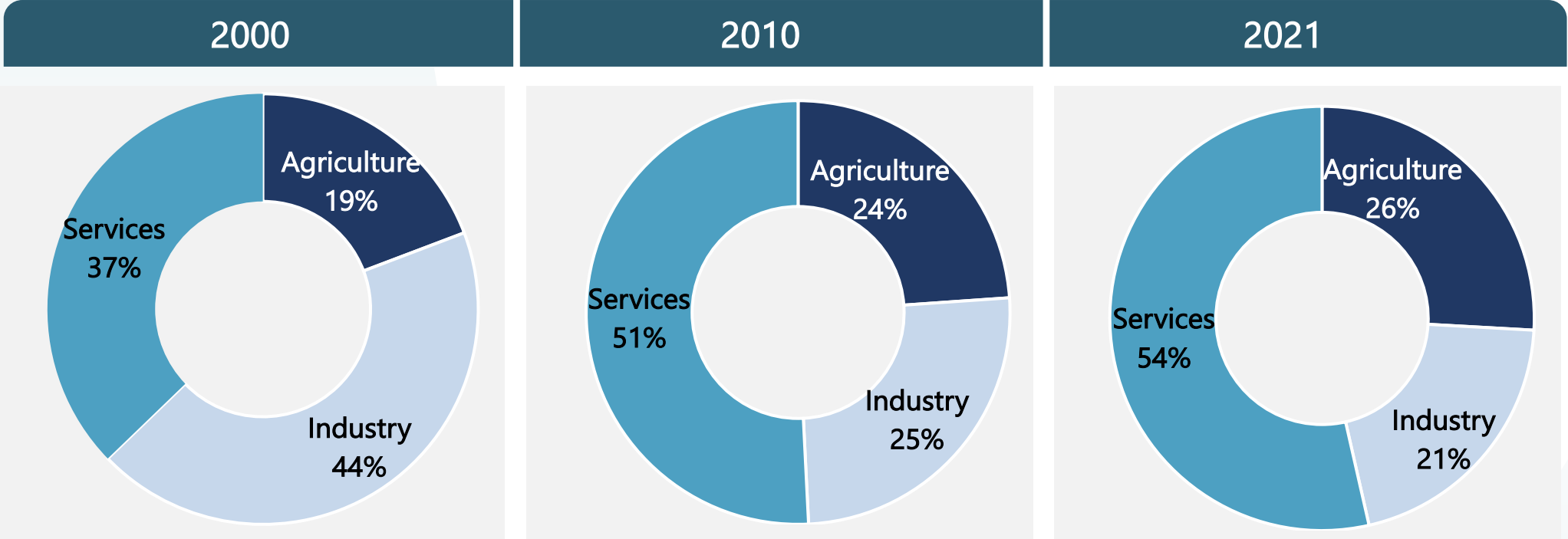
Nigeria's GDP Growth (%)



- GDP growth has declined, from an average growth of 7.9% in the 2000s to 2.5% in the 2010s.
- Growth has average 1.1% in the last 7 years. In the first two quarters of 2022, GDP grew by 3.1% and 3.5% respectively.

GDP composition has shifted towards the services sector

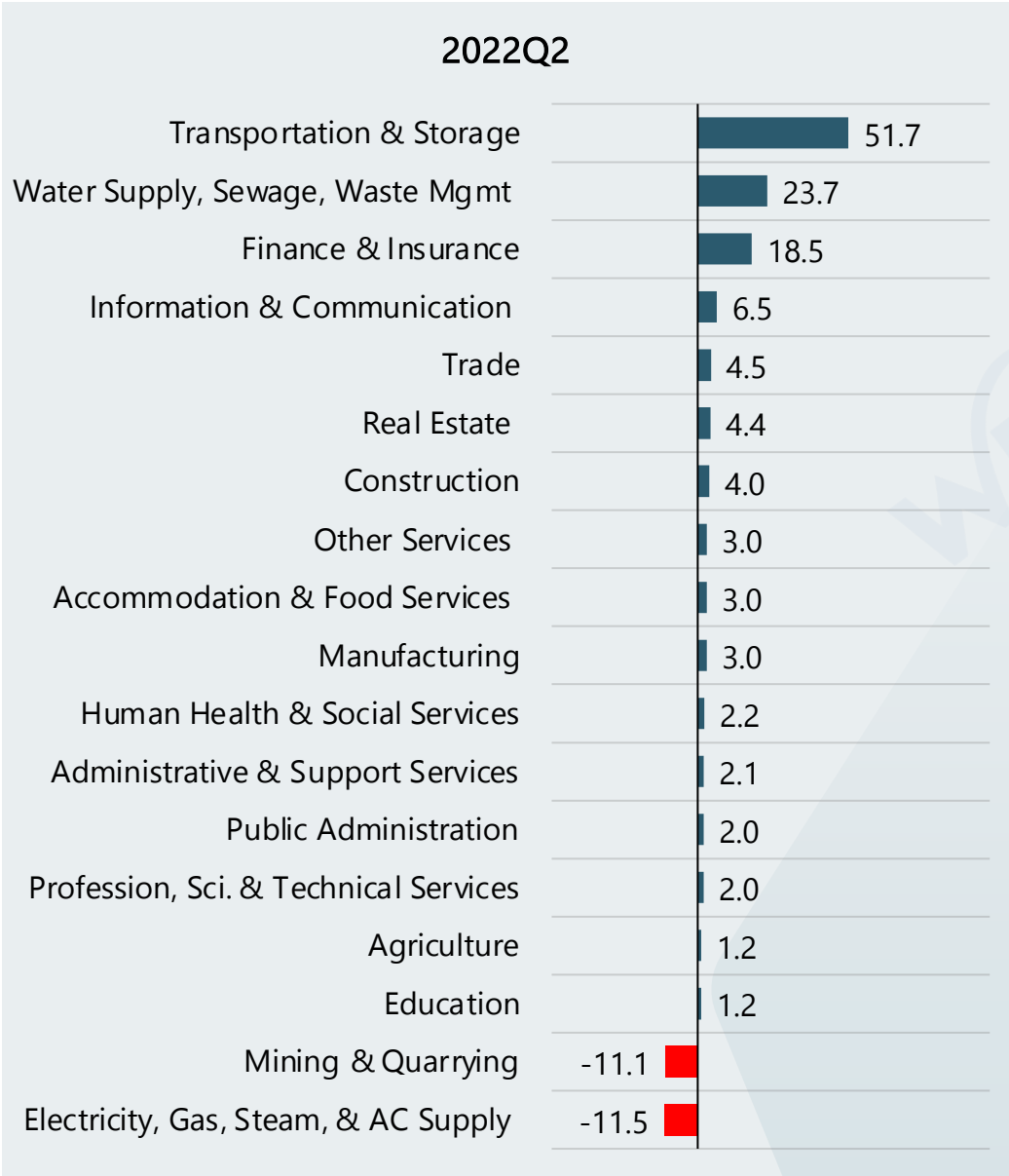
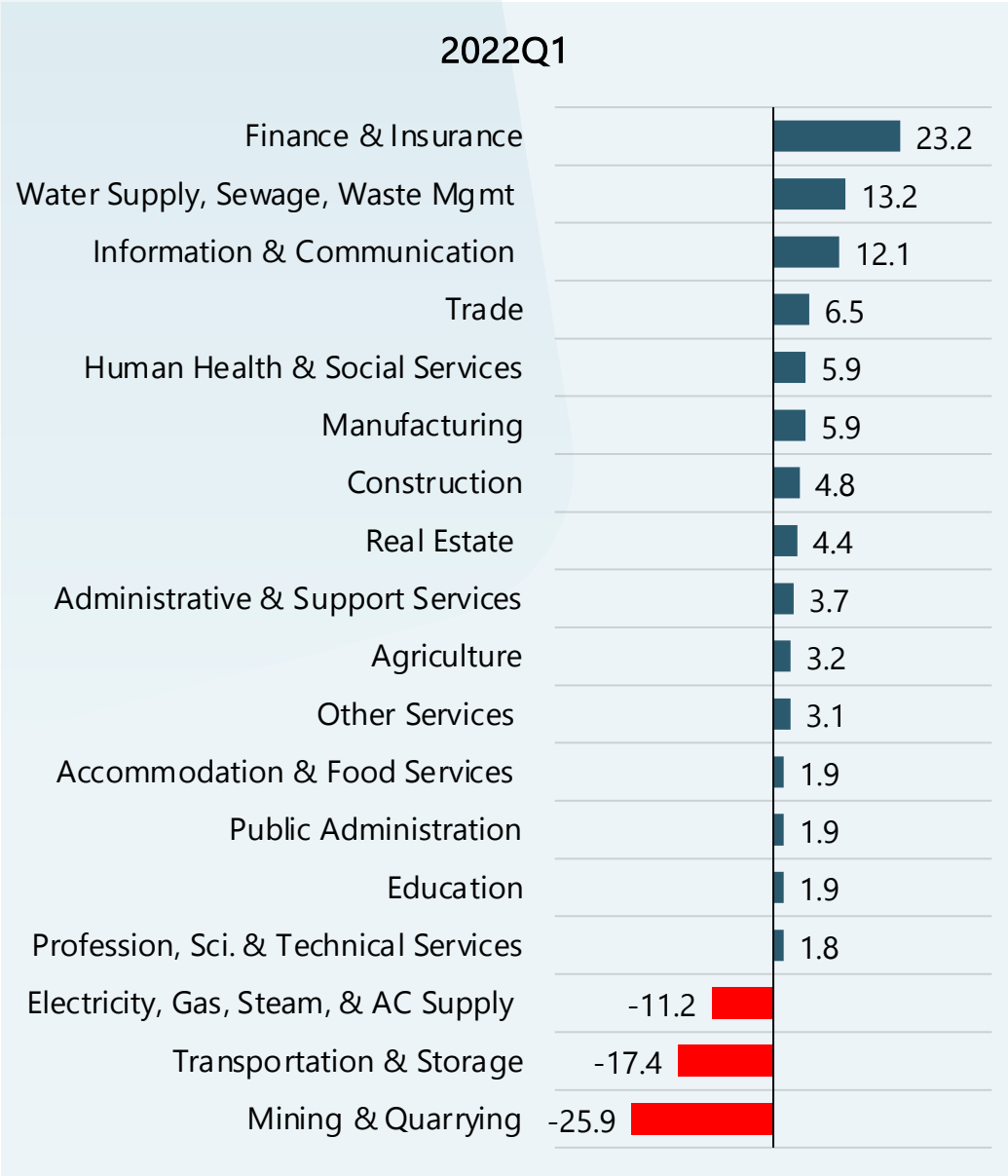
Nigeria's GDP Composition



- Services share of GDP has expanded from 37% in 2000 to 54% in 2021.
- Share of Industry declined from 44% in 2000 to 21% in 2021. Manufacturing share - 9% in 2021 (12% in 2000).

Services sector has been a major growth driver in Nigeria

Nigeria's Sectoral GDP Growth (%)



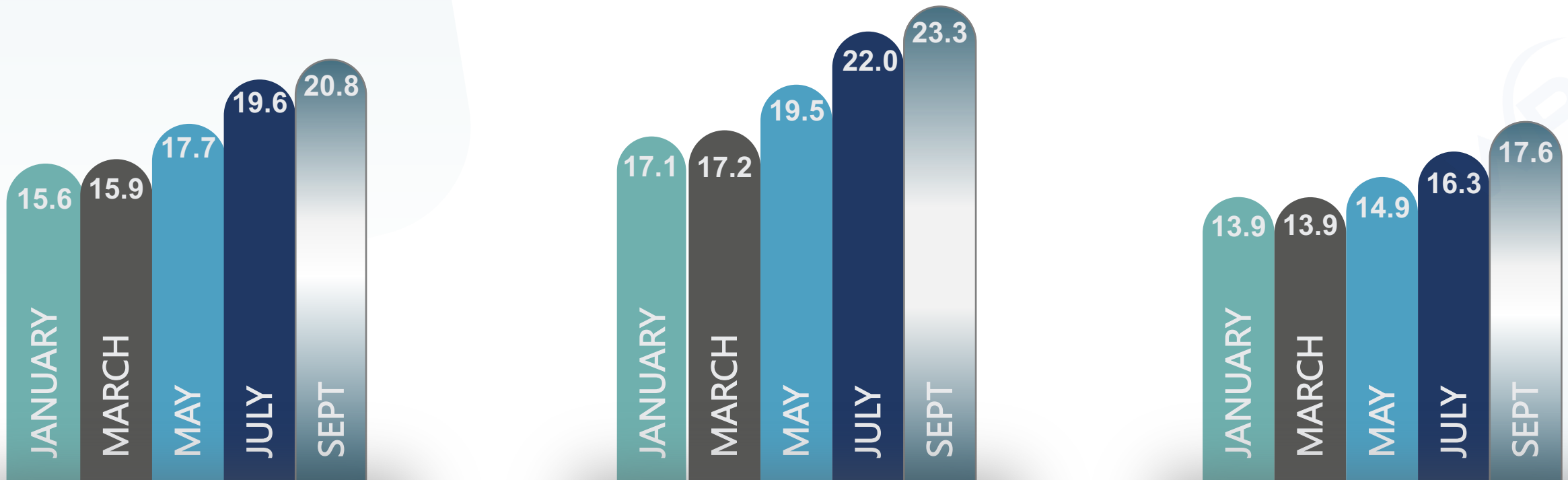
Data Source: NBS

Rising Inflation is the enemy of the poor & middle-income earner

Inflation rate crossed 20% in August – This has never occurred since 2009.

Driven by key factors – fx depreciation, poor power supply, infrastructure deficit, insecurity...

Nigeria's Inflation Rate in 2022 (%)



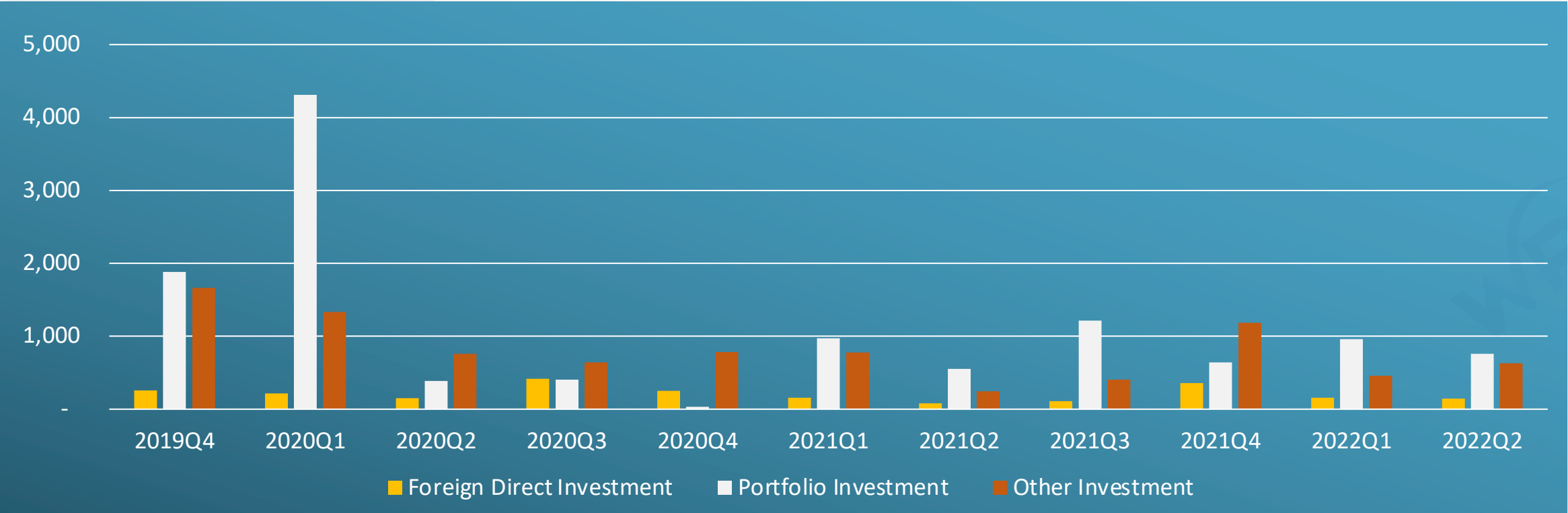
HEADLINE INFLATION

FOOD INFLATION

CORE INFLATION

Foreign Investments yet to attain pre-COVID-19 levels

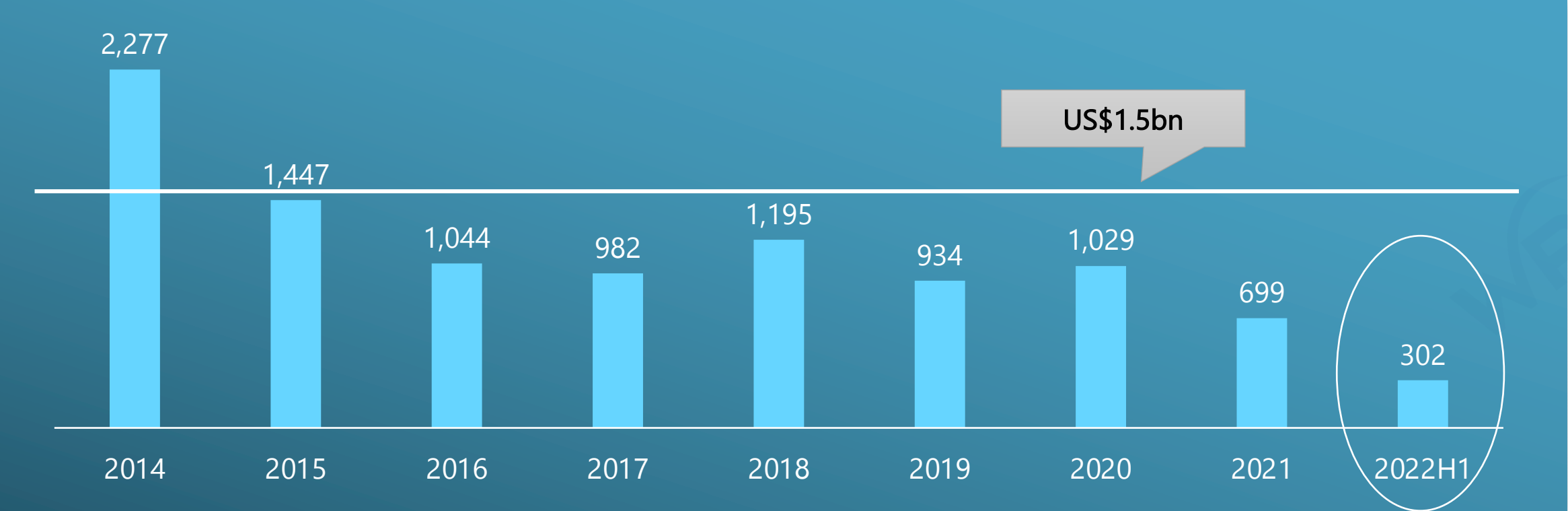
Nigeria's Foreign Investment Inflows (US\$ Billion)



- Since COVID-19, Nigeria has struggled to attain investment inflow of US\$2 billion per quarter.
- High cost of doing business, fx policies, insecurity have held back investors.
- Foreign Direct Investment yet to reach US\$1.5 billion in 7+ years

Foreign Direct Investment yet to reach US\$1.5 billion in 7+ years

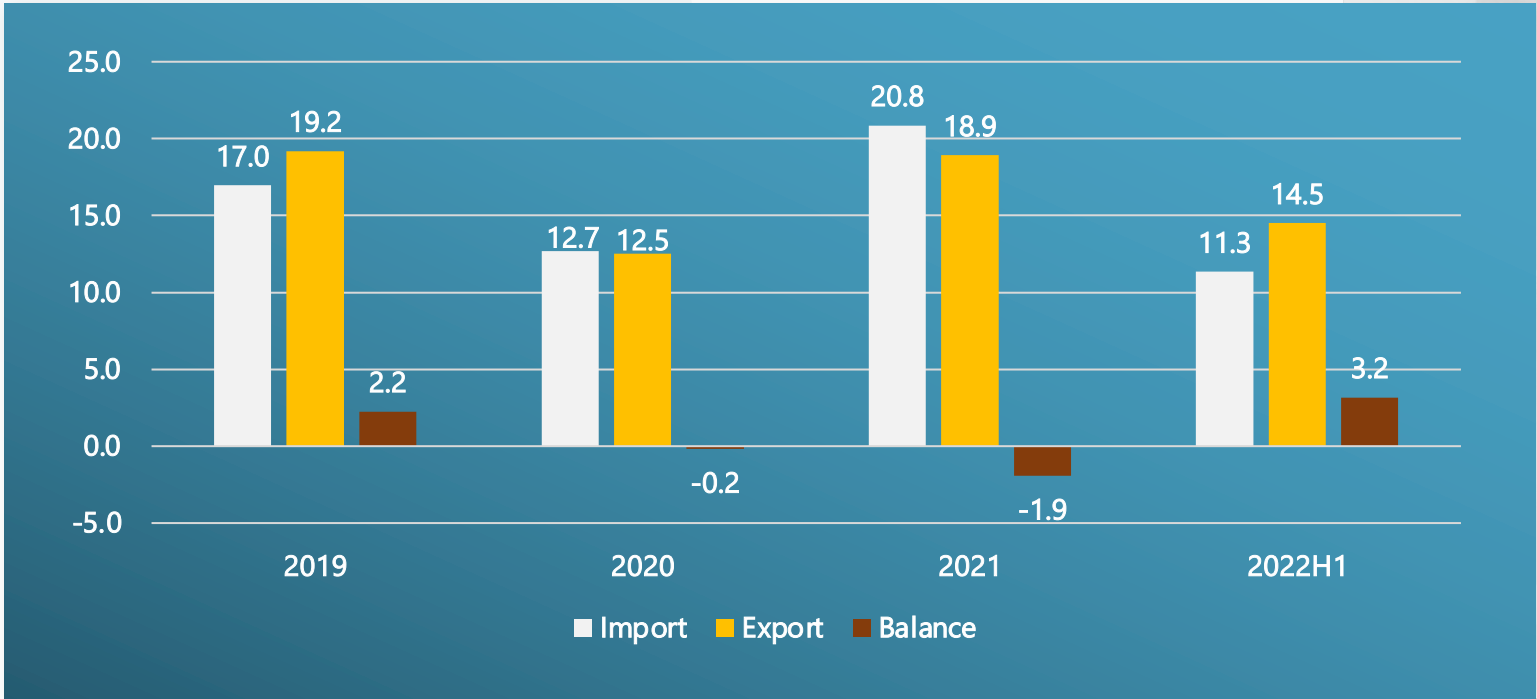
Nigeria's Foreign Direct Investment Inflows (US\$ million)



- Poor FDI inflow signals weak investor confidence in the economy.
- FDI inflow into South Africa was US\$37.6bn in 2021; Egypt +US\$5 billion; US\$31.1 in Indonesia.

So far in 2022, Export value exceeded that of Import

Nigeria's Foreign Trade (N Trillion)

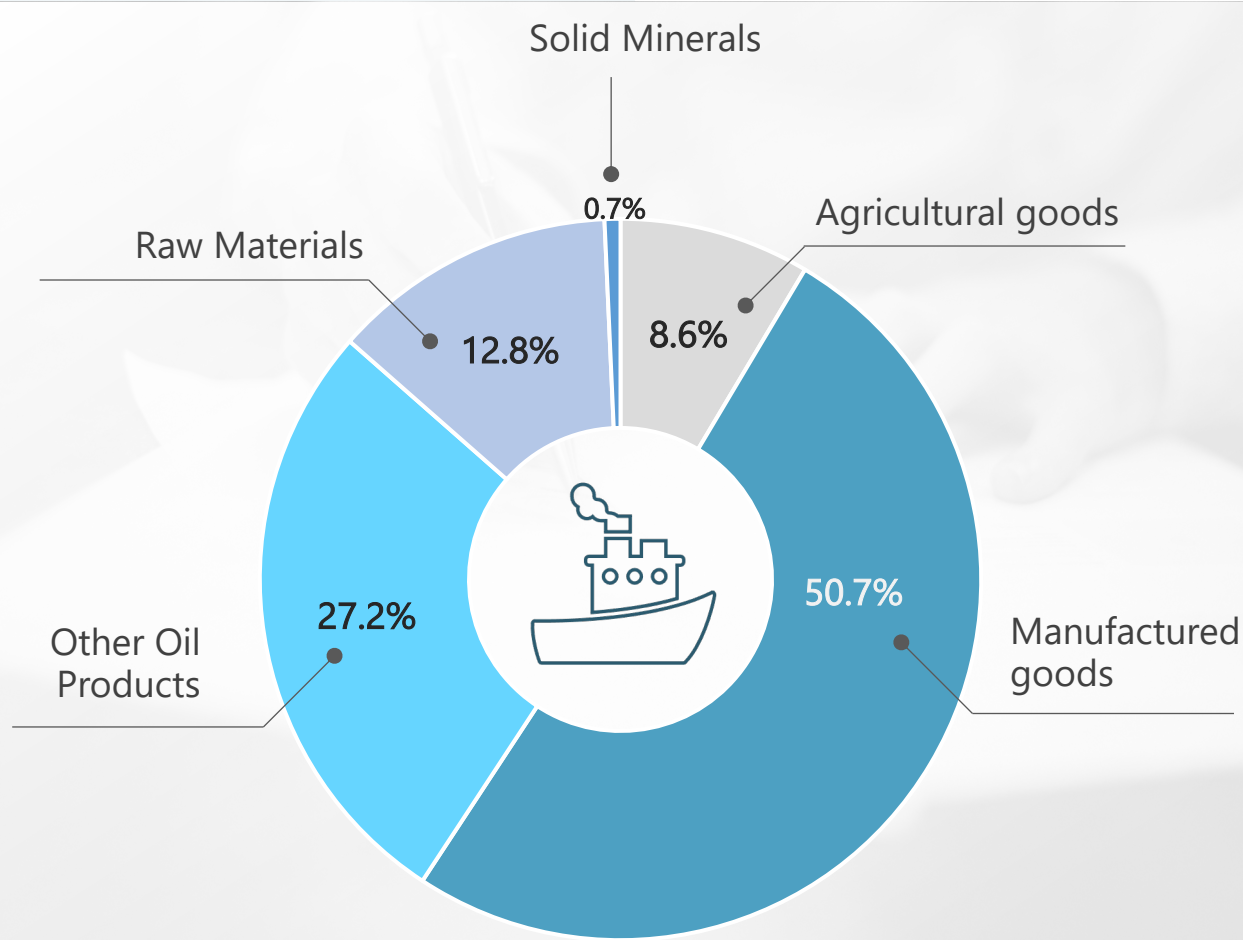


Trade data so far in 2022 show an improved balance of trade where the value of import is higher than that of export.

While this appears to be a positive trend, informal trade is a major problem. In addition, with higher oil prices, oil earnings should increase at a much higher rate.

What does Nigeria Import?

Import Share by Category (2022Q2)



Of the N5.4 trillion import value in 2022Q2, N1.5 trillion spent importing fuel, kerosene and other mineral products.



N771 billion spent importing live animals, animal products, vegetables, foodstuffs, bev.



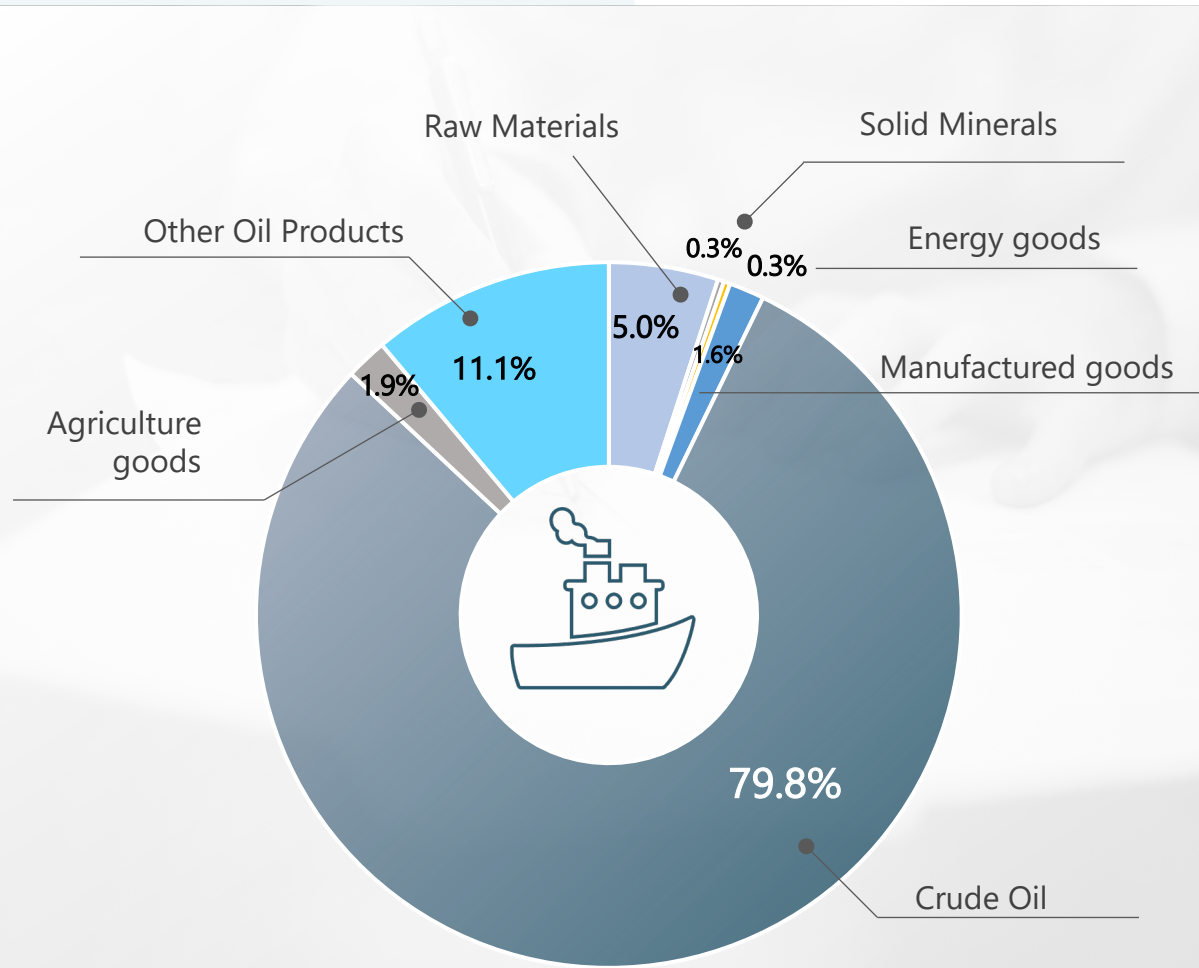
Top 4 countries we import from: China – N1.4 tln; India – N459bn; Netherlands – N431bn; US – N363bn



Import as a percentage of GDP is 12%.

What does Nigeria Export?

Export Share by Category (2022Q2)



Oil related exports accounted for 91% of total exports (N7.4 trillion) in 2022Q2.



Share of manufactured goods in total exports is extremely low at 1.6%.



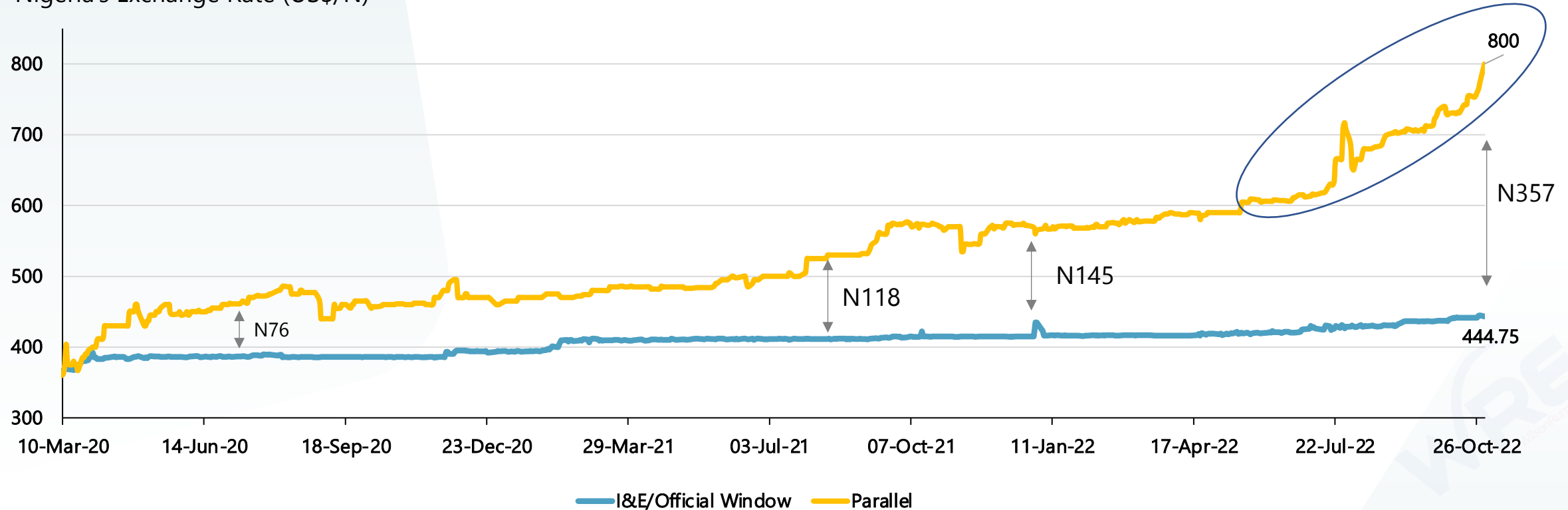
Top 4 countries we export to: India – N1.1 tln; Spain – N1.04tln; Netherlands – N914bn; US – N661bn



Export as a percentage of GDP is 16.4%.

Who can hold the Naira?

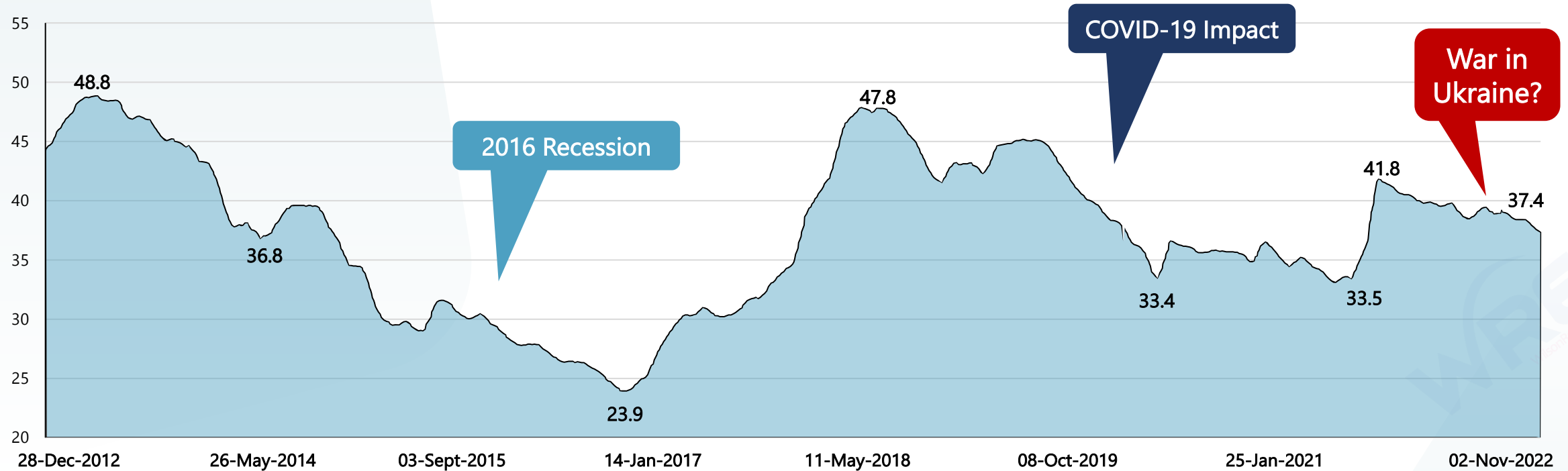
Nigeria's Exchange Rate (US\$/N)



- It took Nigeria two years and two months to reach N600/US\$ from N400/US\$ - from Mar 2020 to May 2022.
- Naira has depreciated by over N200 in just 5 months in 2022.
- Key factors such as policy signaling, policy clarity, insufficient FX inflows – FPI, FDI, Export earnings – are important.

External Reserves show an unstable trend in a decade

Movement of Nigeria's External Reserves (US\$ Billion)



- Reserves are important to address vulnerability – Resource rich countries build reserves when commodity prices are high. For instance, Saudi Arabia grew its reserves significantly in 2022 and its economy is expected to grow by 7.6% according to the IMF.
- The war in Ukraine presented an opportunity for Nigeria to grow the reserves. Inability to grow reserves sustainably reflects structural problems in the economy.

Oil “Producers” are recording revenue gains

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Saudi net reserves surge near \$449bn, highest since 2020

Published: 30 Oct 2022 - 08:31 pm | Last Updated: 30 Oct 2022 - 08:35 pm



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The significant increase in revenue of the UAE Federal and Emirates Governments is a testament of the wise fiscal policies placed by the leaders of the UAE; aimed at making the #UAE one of the leading financial business hubs in the world

#governmentrevenue #EconomicDevelopment

The UAE government witnessed

THE LARGEST REVENUES

during a six-month period in more than four years

305.6 bn

32% increase in revenues to a total of AED 305.6 billion

Financial Surplus Achieved by the UAE Government in the first half of 2022

AED 125.5 Billion

Total Revenue AED 305.6 billion

Government Expenditures AED 180.1 billion

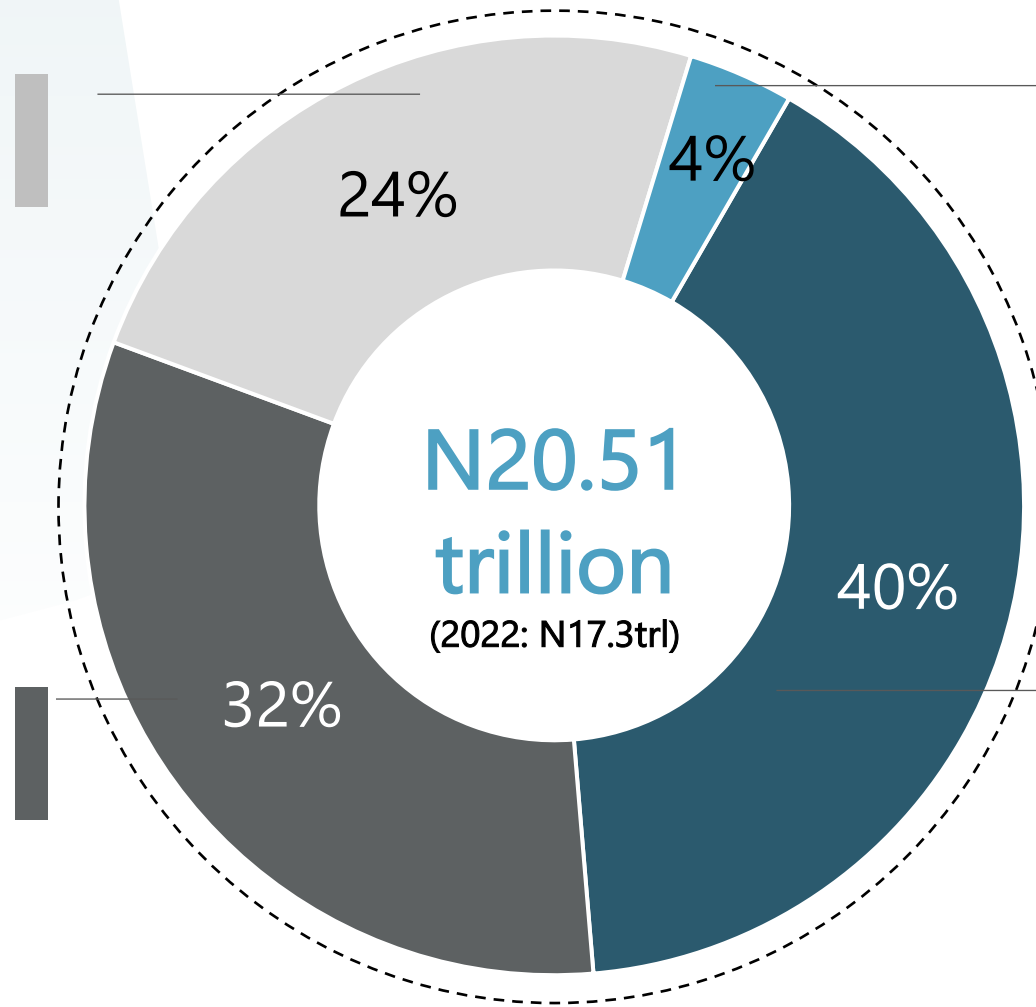
FG Budgets N20.5 trillion Expenditure & N9.7 trillion Revenue for 2023

Capital Expenditure, ~~N~~4.9 trillion

Capital expenditure (exclusive of transfers) was N5.4 trillion in the 2022 budget.

Debt Servicing, ~~N~~6.6 trillion

Debt service was N3.98 trillion in the 2022 amended budget.



Statutory Transfer ~~N~~744 billion

Transfers to independent agencies declined from N817 billion in the 2022 budget.

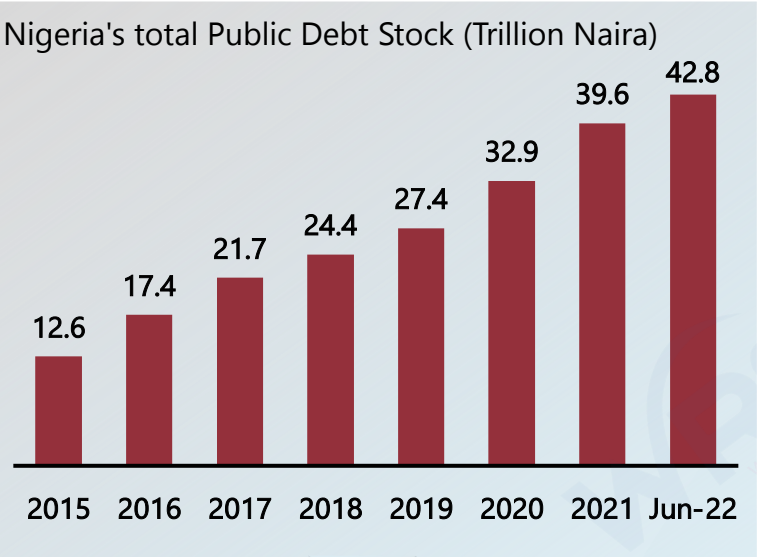
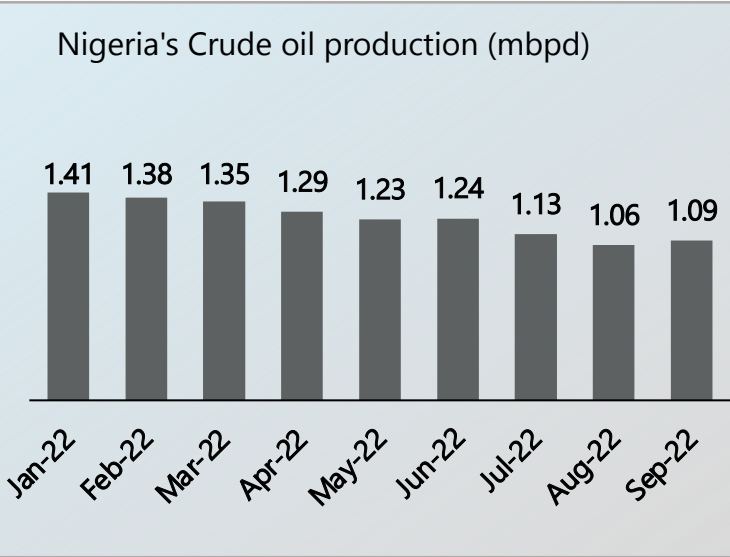
Non-Debt Recurrent Expenditure, ~~N~~8.27 trillion

Total recurrent expenditure rose by 16.3% when compared with N7.1 trillion in the 2022 budget.

Revenue is projected at N9.7 trillion out of which N1.92 trillion is oil revenue (20%). This leaves a deficit of N10.78 trillion.

Public Debt set to increase further in 2023

- US\$70 per barrel oil price
- Oil production at 1.69 million barrels
- Exchange rate – ₦435.57/US\$
- Inflation rate – 17.16%
- Projected GDP growth rate – 3.75%



Key Budget Assumptions



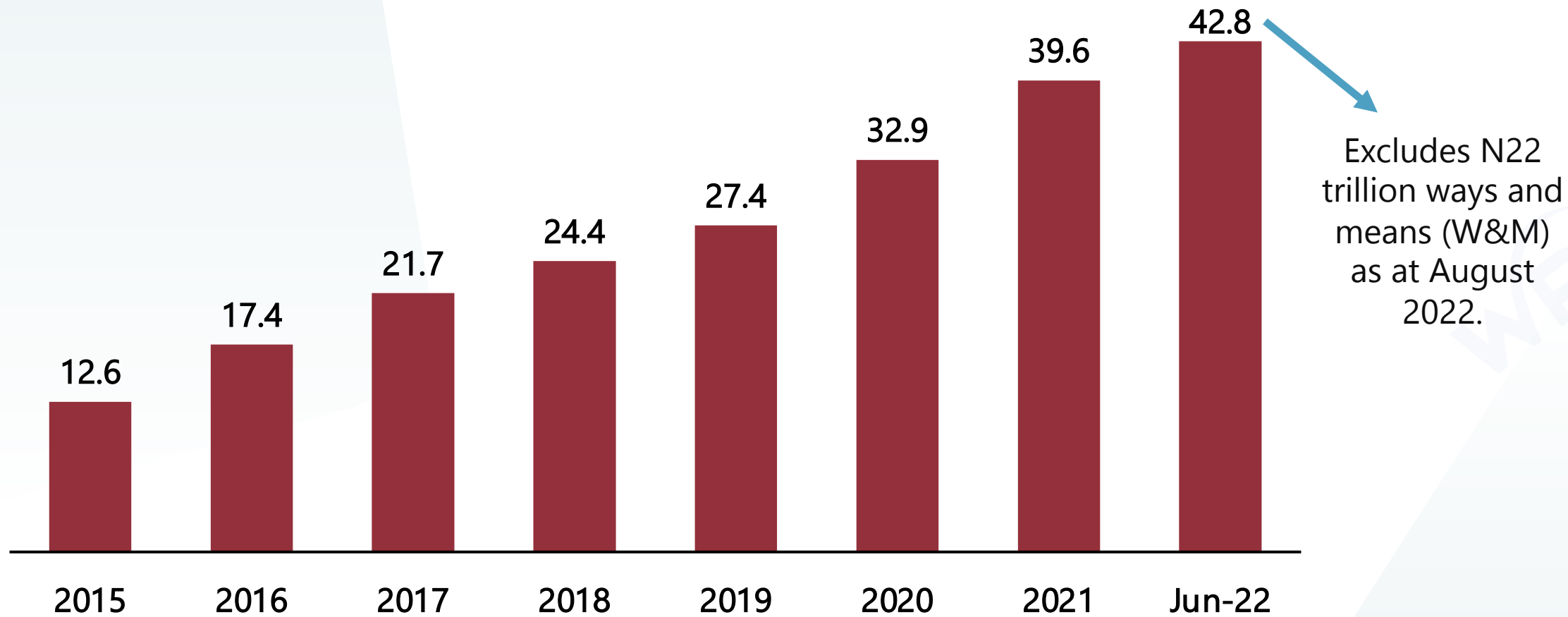
Trend of Crude Oil Production



Trend of Public Debt

Public Debt set to increase further in 2023

Nigeria's total Public Debt Stock (Trillion Naira)



Deficit of ~~N~~10.78 trillion will be mainly financed by borrowing (~~N~~8.8 trillion). Debt level is expected to increase further as deficit will be surpassed due to lower expected revenue. Debt service to revenue was 83.2% from Jan – Aug 2022. As at July, the government had borrowed N1.26 trillion more than planned (N4.07 trillion). Actual debt (including W&M) would reach N69 trillion by the end of 2022.

Key Monetary Policy Update



In September, CBN MPC raised MPR to 15.5% and CRR to 32.5%. Implication on debt service



CBN Ways and Means rose to N22 trillion as at August 2022.



CBN to issue New Naira Banknotes



Impacts so far

- Naira has depreciated at a rapid rate
- Discovery of huge sum of money
- Printing of new notes commenced
- Politicians are strategizing..

Thoughts....

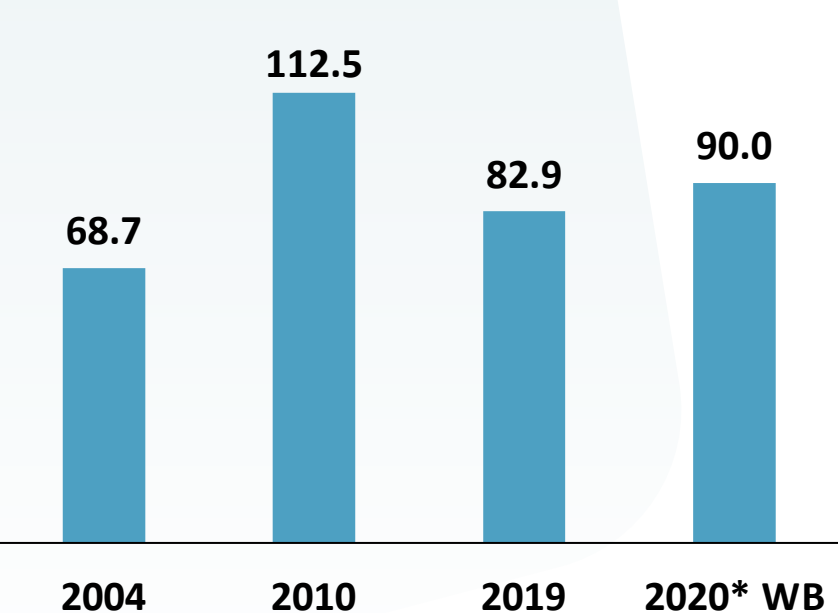
- Timing of implementation
- Mode of implementation
- Level of financial inclusion
- Independence of CBN?
- Political undertone?

- According to the CBN N2.73 trillion out of the N3.23 trillion currency in circulation, was outside the vaults of commercial banks as at the end of September 2022,.
- The CBN aims to get more currency into the banking system in order to increase the efficacy of monetary policy, address counterfeit, etc.
- Existing currencies shall cease to be legal tender from January 31, 2023.

Data Source: CBN MPC, CBN, BusinessdayNG

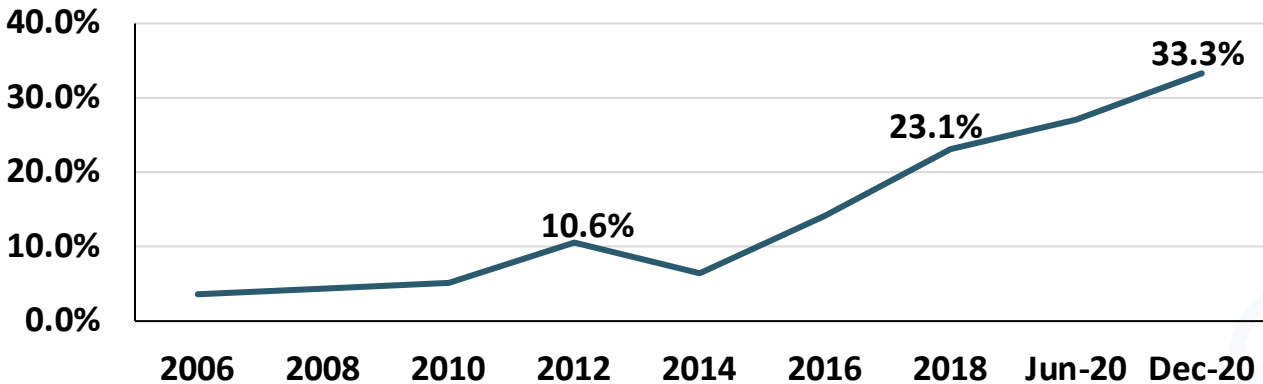
Poverty and Unemployment are major concerns

Nigeria's Number of Poor (million)

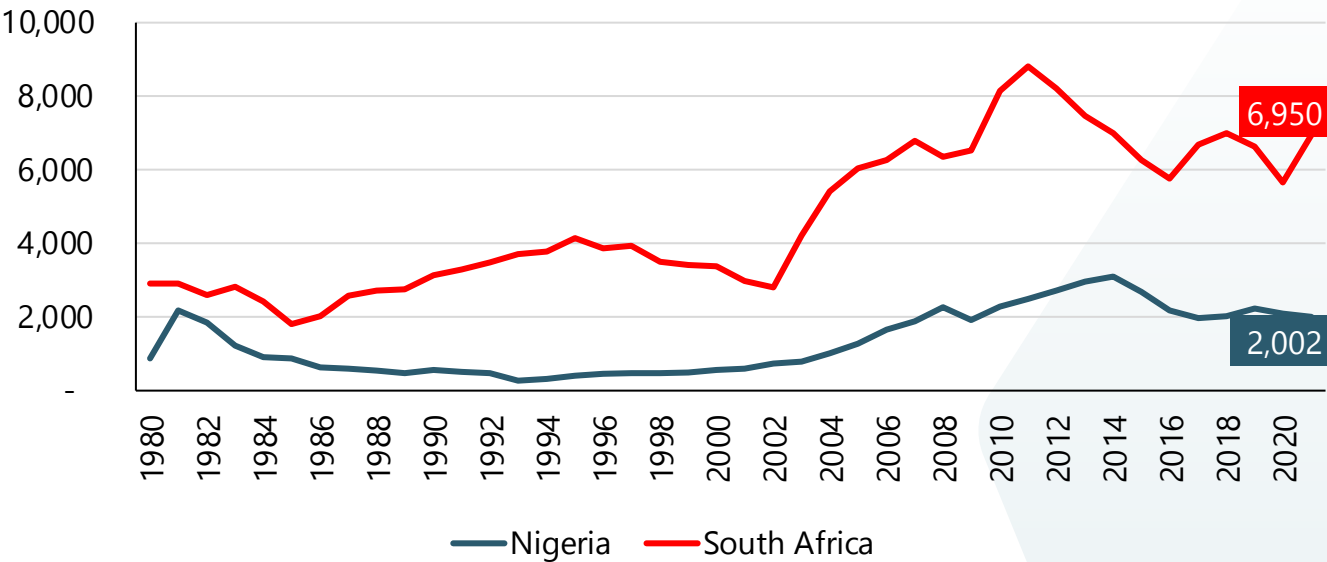


- Poverty and unemployment have been major challenges for successive administrations.
- In 2021, 7 million Nigerians fell below the poverty line due to lower purchasing power according to the World Bank

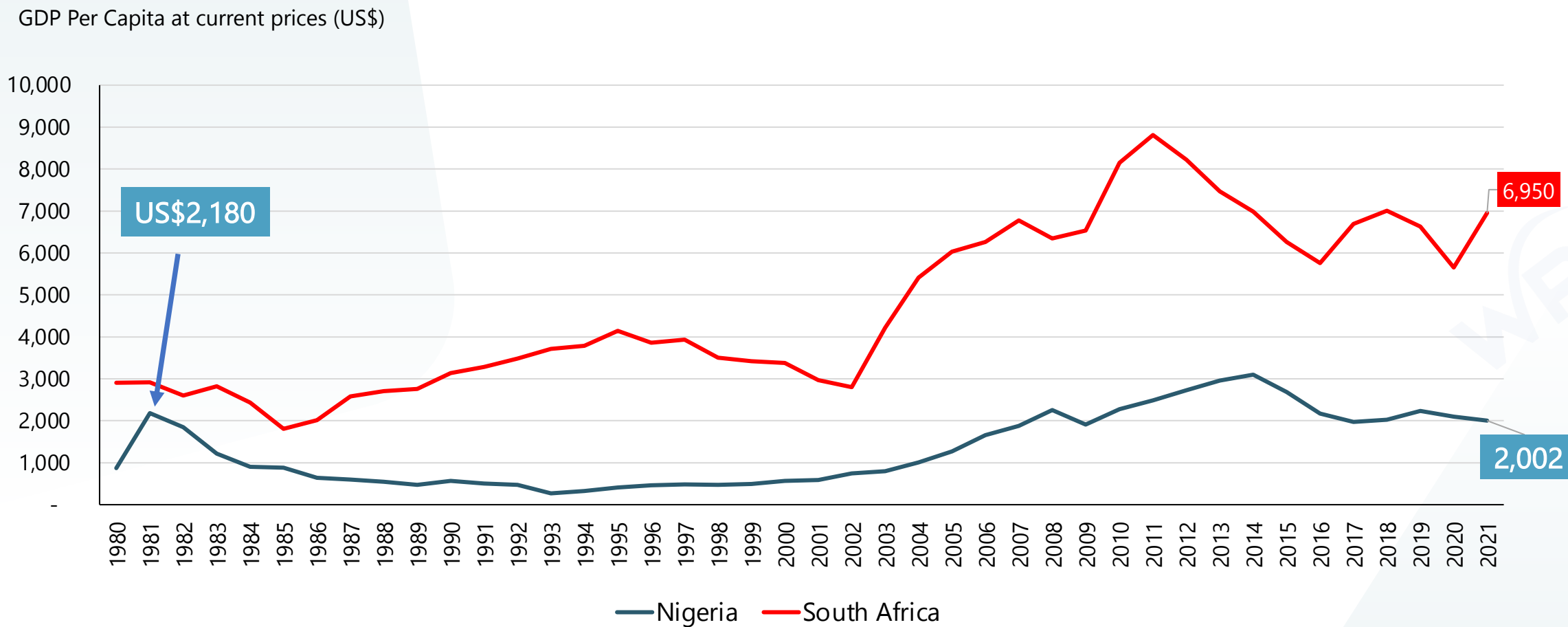
Nigeria's Unemployment Rate



GDP Per Capita at current prices (US\$)



Per Capita Income in 2021 is lower than it was in 1981



Data Source: World Bank WDI

Major Trends in Nigeria

Major Trends in Nigeria



01

Floods ravages parts of Nigeria

Heavy rainfall and opening of the Lagdo Dam, in Cameroon caused severe flooding in many parts of Nigeria. 31 states affected. Over 500 deaths. Damage of more than 140,000 hectares of farmland.

02

Challenges persist in the aviation sector

Aviation fuel shortages and limited FX has led to high cost of operation. As at September 2022, the highest amount of blocked funds (\$567m) belonging to foreign carriers was in Nigeria (IATA).

03

Election campaigns

Campaigns have commenced across Nigeria. Printing, media and advertising and logistics sectors to gain from higher demand.

04

The cost of subsidies

N4 trillion was approved for fuel subsidy in 2022. Petrol subsidies to be removed by mid-2023. N3.36 trillion has been provided for PMS subsidy in the 2023 budget.



Major Trends in Nigeria



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Meet Nigerian Tech Startups That Raised \$1.12bn In 2021

By Ukpe Philip — On Jan 2, 2022



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FinTech

Led by SoftBank, Nigeria's OPay raises \$400m at \$2bn valuation

By Michael Ajifowoke

Aug 23, 2021



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ImaliPay, a Nigerian gig economy fintech, has raised \$3 million in a seed round

Fintech

African fintech Flutterwave triples valuation to over \$3B after \$250M Series D

Tage Kene-Okafor @ulonmaya / 8:05 AM GMT • February 16, 2022

Comment

Identitypass, an identity verification API for Africa, raises \$2.8M seed funding

Tage Kene-Okafor @ulonmaya / 9:10 AM GMT+1 • May 11, 2022

Comment

Opportunities and Outlook

Entertainment Industry

Music, arts, fashion, culture, movies continue to put Nigeria on a global map with numerous opportunities.



Manufacturing

Only 0.4% of Nigeria's manufacturing output is exported. Nigeria also has a large domestic market fed by imports of manufactured goods.



The AfCFTA

The African Continental Free Trade Area (AfCFTA) Agreement is a golden opportunity for businesses in Nigeria to boost exports.



Key Opportunities



Tech-enabled firms

Technology is changing the way we do business and interact. ICT is among the fastest growing industries in Nigeria. Many tech-enabled firms (start-ups) have been able to raise funds in recent times.



Sub-nationals

Progressive sub-nationals are providing incentives to businesses across sectors to lure investments



Outsourcing

Many skilled workers particularly young individuals are emigrating. This presents a large skill-gap. Some businesses are beginning to outsource projects/tasks.

Nigeria's Economic Outlook

- **Economic Growth & Inflation**

Nigeria's GDP will continue to grow albeit at a much slower pace as inflation and a weaker currency bit harder on output. Prices will continue to rise, as long as pressures on FX, insecurity and infrastructure deficit remain. Insecurity - still a major concern for investors and citizens.

- **Sectoral Performance**

Services sector will continue to drive growth in Nigeria. ICT and Finance will continue to expand. Their impact on employment, however, will remain limited. Agriculture will continue to experience mild growth based on high demand for food and government financial support for the sector.

- **Public Finance and Exchange Rate**

Projected revenues in the FG budget are likely to be unmet as historical performance shows. This means that debt will continue to rise, along with debt servicing cost. The CBN will continue to manage the Naira, but pressure on the currency will increase as election approaches. Nigeria needs to boost investors' confidence and implement an aggressive export strategy.

- **Economic and Social Inclusion**

Economic and social inclusion could worsen if there are no concrete and urgent steps to address inflation. Structural transformation towards manufacturing is important in improving income levels of Nigerians.

...But, Nigeria's Outlook will
depend on who becomes the
President in the 2023 General
Elections

Conclusion

The Race to become Nigeria's President in 2023 has begun!



.....and many more candidates

Who will address Nigeria's complex challenges and consolidate on existing progress to deliver a prosperous nation?

Performance of Key Indicators from 2018 to 2021

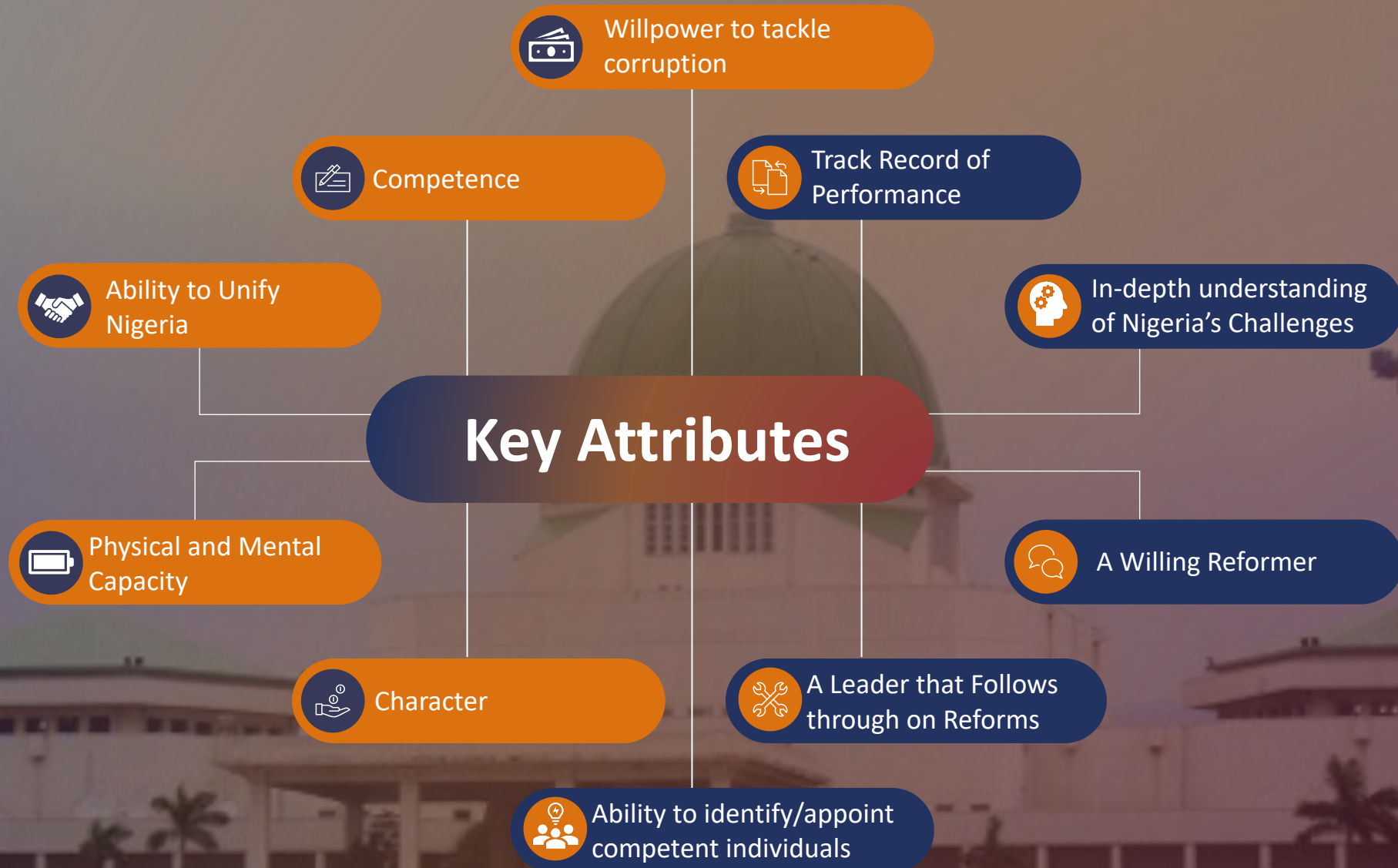
Indicator	2018	2019	2020	2021
GDP Growth (%)	1.9	2.3	-1.9	3.4
Nominal GDP (Billion US\$)	417.3	469.9	424.5	433.8
GDP Per Capita (US\$)	2,028	2,230	2,097	2,002
Foreign Direct Investment (US\$ 'million)	1,195	934	1,028	699
Unemployment Rate (%)	23.1	-	33.3	-
Number of Poor (million)	-	82.9	-	91
Inflation Rate (%)	12.1	11.4	13.2	17.0
Official Exchange Rate (N/US\$)	306.1	306.9	358.8	400
Corruption Perception Index Ranking	144	146	149	154

Texts in **green** represent improvement relative to the previous year. **Red** texts represent negative performance.

Data Source: National Bureau of Statistics, World Bank, World Bank WDI, CBN, Transparency International

The stakes are higher. The 2023 elections will determine the social, political and economic trajectory of Nigeria.

What should Nigerians look out for in a Presidential Candidate?





Wilson R. Erumebor



Thank You!

I am humbled to have made this presentation to this esteemed audience and at a prestigious location – Jesus College, University of Cambridge.

The views in this report are those of the author and do not represent the views of the organizations he is affiliated to.

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