2023

ECONOMIC OUTLOOK

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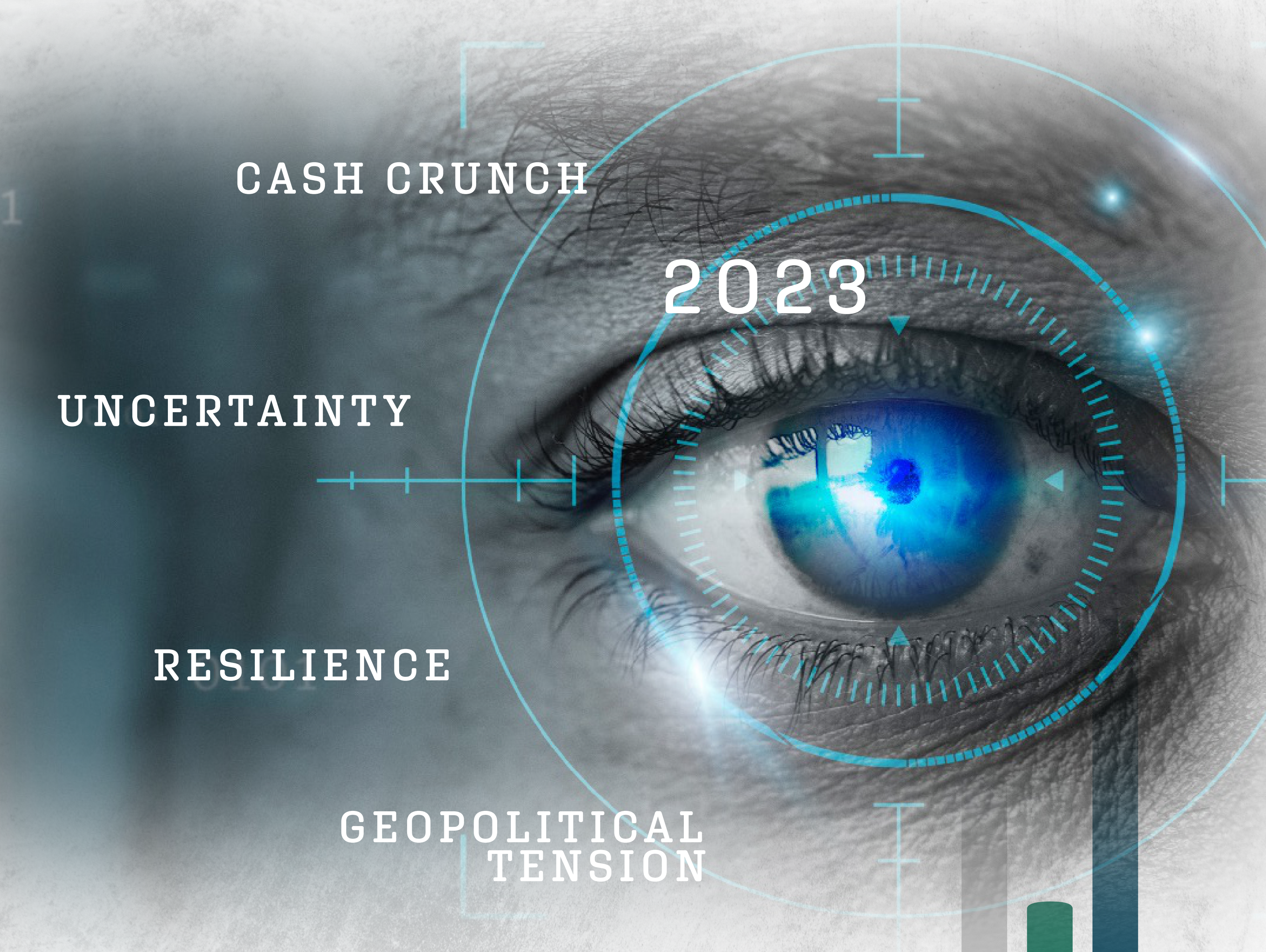

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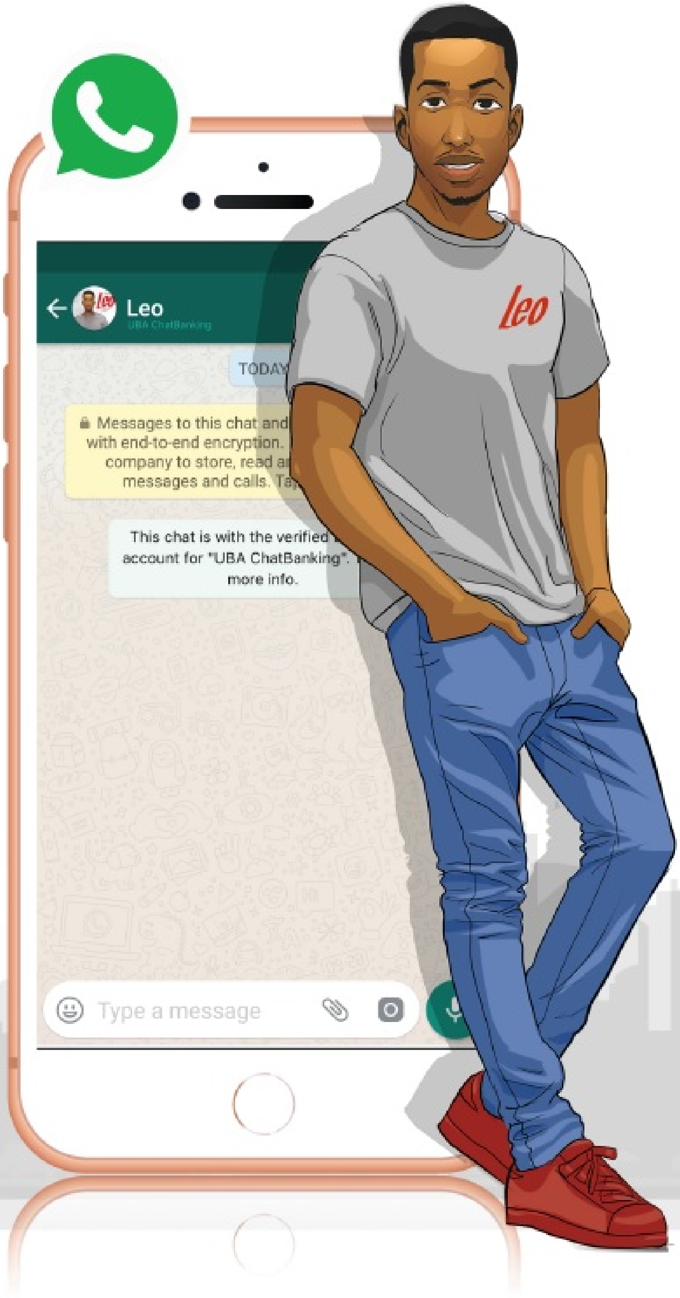

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EXECUTIVE SUMMARY

2023 - A Year of Imponderables, Uncertainties & Riddles.

Nigeria's Growth Outlook

Forecasting Nigeria's 2023 growth outlook has become an uphill task due to the multidimensional uncertainty that characterizes the year. The naira redesign policy is causing monumental disruption both in the real and financial sectors. The 2023 presidential election, with its intrigues, is demasking the country's vulnerability and making investors increasingly unsettled. In the same vein, the persistent inflationary surge is brewing investor tentativeness as monetary policy tightening could become the new normal.

According to the FDC forecast, a base case scenario shows that Nigeria's real GDP growth will slow to 2.55% in 2023 from an estimated growth rate of 2.71% in 2022. However, the worst and best case projections show that growth may slow to a low of 1.33% or expand by 3.10% in 2023 respectively. The subdued growth would be bookended by the naira cash crunch, election uncertainty, weak private consumption growth, and a tepid investment outlook. Elevated inflation, the naira redesign program, and restrictive monetary policy will also weigh on the overall outlook.

Nigeria recorded two recessions in less than a decade, particularly in 2016 and 2020. The already fragile recovery seen in 2021 was subdued in 2022 due to the global headwinds precipitated by the Russia-Ukraine war and a massive decline in oil production. Oil production declined by 33% to 1.20 million barrels per day (mbpd) in 2022 from 1.79mbpd in 2019. Also, the skyrocketing gasoline subsidy payments, estimated to exceed $15 billion in 2022, also caused Nigeria its fair share of the global oil windfall enjoyed by oil producing countries in 2022.

> "The naira redesign policy, the intrigues of the 2023 general election, and the persistent inflationary surge are demasking the country's vulnerability and heightening investor tentativeness.

SELECTED FORECAST: GROWTH, INFLATION, UNEMPLOYMENT

	GROWTH(%)	INFLATION (%)	UNEMPLOYMENT (%)
2022	2.71	18.8	35.3
2023	2.55	18.4	36.1

Source: FDC

Inflation to average to 18.4% in 2023

For full year 2023, inflation is expected to average18.4%. Nigeria's inflation accelerated to a 17-year high of 21.82% in January. In 2022, the average annual inflation was 18.8%, the highest since 1996. In an effort to rein in a viciously rising inflation, the CBN began an aggressive restrictive monetary policy in May 2022 raising rates by cumulative 600 basis points by January 2023. In spite of the aggressive rate hikes, inflation has remained stubbornly high. However, we expect that the CBN will begin to slow the rate of interest hikes in March.

Policy reforms

Nigeria is now on a precipice and appears to have hit a brick wall. With tepid growth, limited fiscal headroom, a persistent currency crisis, record high inflation and worsening imbalances, policy reforms have become inevitable. Although we do not expect any major policy reform before the 2023 general election, it is evident that the new administration has limited choices: it must embark on targeted reforms, including debt restructuring, subsidy removal and other critical market-based reforms.

Sub-Saharan Africa

In sub-Saharan Africa (SSA), output growth is expected to inch up to 3.8% in 2023 from an estimated growth rate of 3.6% in 2022, which is almost 1% lower than the 4.7% recorded in 2021. Most SSA countries, particularly non-oil exporting countries, faced global headwinds in 2022. Inflation rose sharply as global food and energy commodity prices surged. Most economies witnessed large depreciations in their currencies due to unfavorable terms of trade and widening current account deficits as capital outflows spiked. The increase in interest rates in the bid to curb spiraling inflation led to a sharp increase in borrowing costs and debt levels. SSA countries have gone on a borrowing honeymoon as they leveraged on the low interest rate environment that dominated the global debt market in the past decade, raising their external debts to $766.9 billion from the $372.5 billion they held a decade ago. According to the IMF, about 30 low-income countries in the SSA are at risk of a debt crisis and about eight other countries are already in debt distress.

Global Growth

Global growth will remain resilient in 2023 as shockwaves and uncertainty become the new normal. Although global output is expected to slow to 2.8% in 2023 from 3.2% in 2022, it will rebound to 3.4% in 2024 as most emerging markets and developing economies begin prioritizing growth-oriented rebalancing.

The global economy started 2022 on an upbeat note, buoyed by the lifting of the COVID-19 restrictions and a pickup in global demand. However, the invasion of Ukraine by Russia in February 2022 halted the recovery momentum and changed the course of the global outlook for the rest of 2022. As the war escalated, the quick-fire Western sanctions on Russia sent global energy and food prices soaring, with inflation reaching multi-decade highs in most countries.

The global economy was deeply mired in the most severe inflationary pressures since the Great Inflation of the 1980s. In a fierce response to the surging prices, most central banks began one of the most aggressive monetary tightening regimes since the 1980s. With the increasing impact of record high inflation and monetary tightening, the outlook for economic activity in 2023 remains uncertain as downside risks stemming from financial sector instability and fiscal fragilities come to the fore. FDC Think Tank highlights the key events that will drive global growth outlook.

Geopolitical tension will weigh on growth

The Russia-Ukraine war is fragmenting the world into different geopolitical alliances, and this has heightened global uncertainty. Russia will continue to push for alliances with China and India, but a stronger Western alliance will force Russia to reconsider its aggressive war stance. Although several regional blocs and economic consternations will experience geo-economic confrontation in 2023, global solidarity will be strengthened at the end of the war as emphasis begins to shift to global cooperation, economic integration, and advancement of plurilateralism.

Global headline and core inflation will moderate

As energy and food inflation become increasingly subdued in 2023, we expect global inflation to maintain a downward trend. Interestingly, both core inflation and headline inflation will decelerate in 2023 as currency crises ease and supply chain distribution improves. Headline inflation will slow to 4.7% from 7.0% in 2022 while core inflation is expected to slow to 3.2% from 4.3% in 2022.

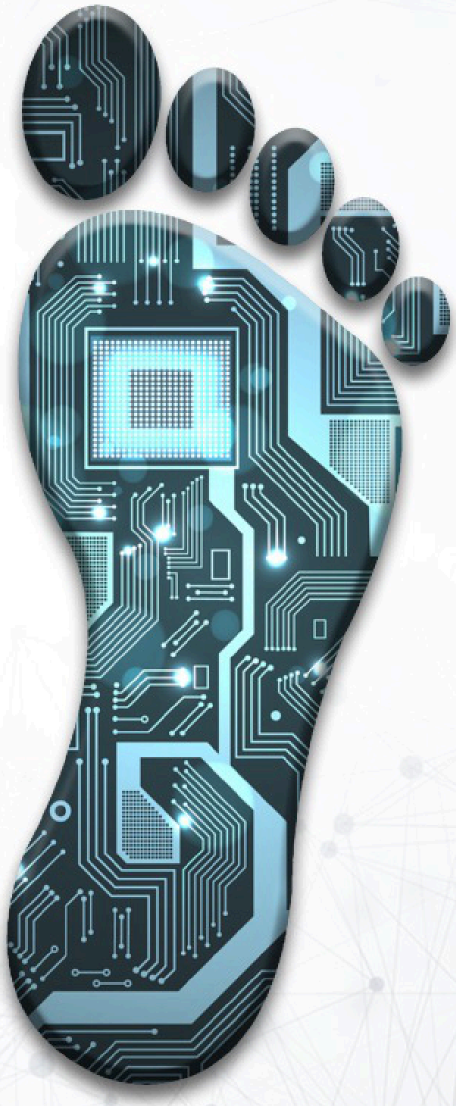
Restrictive monetary policy will undermine growth outlook

Higher interest rates and elevated inflation weakened household consumption and heightened the cost-of-living crisis across the world in 2022. Although global central banks will be less hawkish in 2023 than in 2022, higher interest rates will weigh on private consumption and investment in 2023. Consumers will draw down on their savings to support their consumption demand due to high borrowing costs. As consumer demand wanes, albeit mildly, investment spending will moderate in 2023 but will rebound in 2024.

Global financial conditions

By historical standards, financial conditions were tight in most of 2022, especially in advanced and emerging market economies, with the exception of China. As the economic outlook deteriorates amid heightened uncertainty, the risk of markets repricing economic risks rises. Emerging markets and developing economies will struggle with sovereign rating downgrades as borrowing costs rise amid subdued fiscal revenue. Limited access to credit and high costs of borrowing will trigger corporate mortality, widespread unemployment, and social crises in developing countries.

"The risk of markets repricing economic risks rises as a result of unusual twin tightening: tight global financial conditions combined with monetary policy tightening.



OUTLINE

GLOBAL ECONOMY

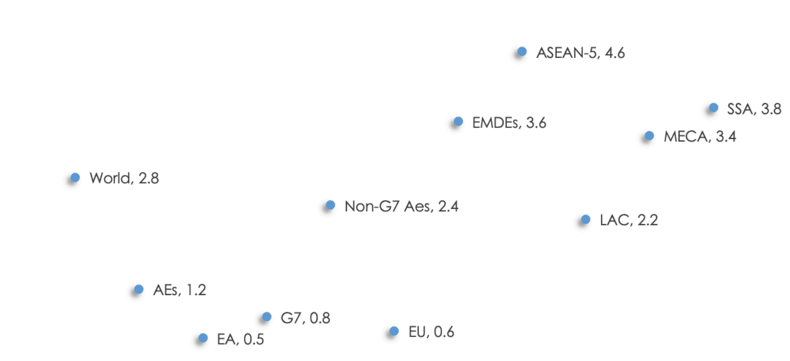
Global Growth In 2023

Global growth will be subdued in 2023 as shockwaves and uncertainties become the new normal.

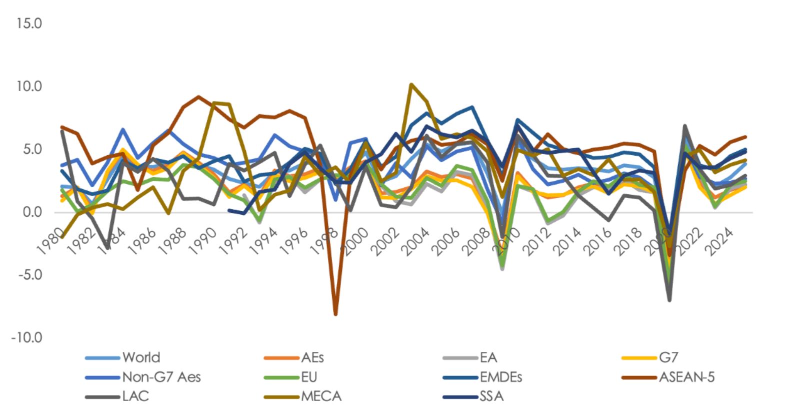
Global output is expected to slow to 2.8% in 2023 and rebound to 3.4% in 2024. G7 and euro areas will taste recession in 2023, but it will be shallow and marked by only two to three quarters of negative growth. Although output growth will remain muted in the US, it will dodge the recession bullet. Growth in emerging markets and developing economies will slow to 3.4% from 3.7% in 2022.

The ASEAN-5 (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) will remain resilient in 2023. However, ASEAN-5 growth will slow to 4.6% from 5.3% in 2022. In sub-Saharan Africa, output is expected to expand marginally to 3.8% from 3.6% in 2022.

GLOBAL GROWTH IN 2023



Source: FDC forecast

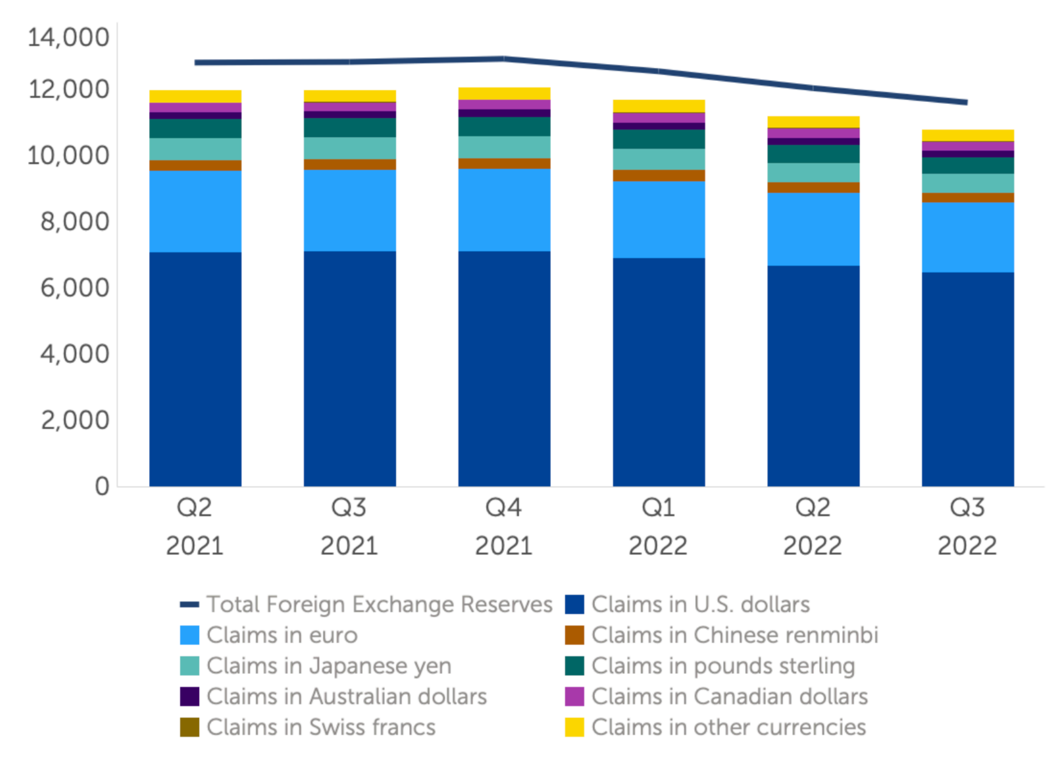


Source: IMF, World Bank, FDC Staff Calculations

Geopolitical tension to weigh on global growth

The Russia-Ukraine war is fragmenting the world into different geopolitical alliances, and this has heightened global uncertainty. The war in Ukraine has led to the worst humanitarian crisis in Europe since WWII. As at January 2023, a total of 7,068 civilian dead and 11,415 injuries has been verified in Ukraine and out of these, 438 of the civilian deaths and 838 of the injured were children. Russia will continue to push for alliances with China and India, but a stronger Western alliance will force Russia to the negotiation table in H1'23. However, several regional bloc and economic concerns will experience geoeconomic confrontation in 2023. Poor countries, especially African and Asian countries, will experience deepened erosion of social cohesion and societal polarization which will intensify security risks in those countries.

WORLD- OFFICIAL FOREIGN EXCHANGE RESERVES BY CURRENCY (US DOLLARS, BILLIONS)

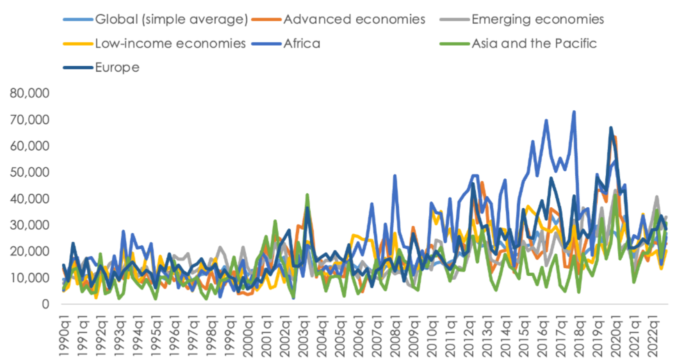


Source: IMF

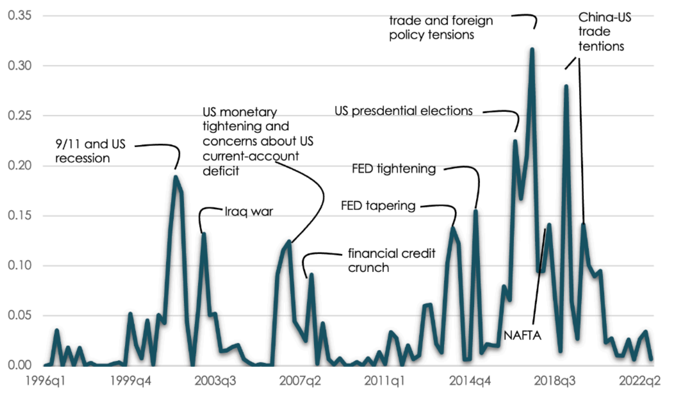
Global Uncertainty Index

The global uncertainty index is quickening as the war lingers and more sanctions are expected to be imposed on Russia. Global solidarity will be strengthened at the end of the war as emphasis begins to shift to global cooperation, economic integration and advancement of plural lateralism. The geopolitical fragmentation is also manifesting in renewed efforts to end or weaken the hegemony of the US dollar. Russia's near-elimination from the dollar-dominated global financial system in 2022 fueled Russia's political maneuvering in leveraging BRIC[1] economies to advance the concept of de-dollarization.

UNCERTAINTY INDEX



Source: IMF, FDC



Source: IMF

Although world official foreign exchange rate reserves declined to US$6.4 trillion in 2022 from US$7.09 trillion in 2021, the US dollar still constitutes about 60% of global foreign exchange reserves. Notwithstanding that the BRIC member states seek to protect their financial interests globally by creating a reserve currency, their excessive reliance on the US dollar presents difficulties that could delay the realization of this goal. In 2022, the dollar appreciated by over 21% against emerging market currencies. In 2023, the dominance of the dollar will not taper. The plan to relegate the hegemony of the dollar will remain a "wild goose chase" in the near to medium terms. However, global uncertainty due largely to geopolitical fragmentation will remain elevated in 2023.

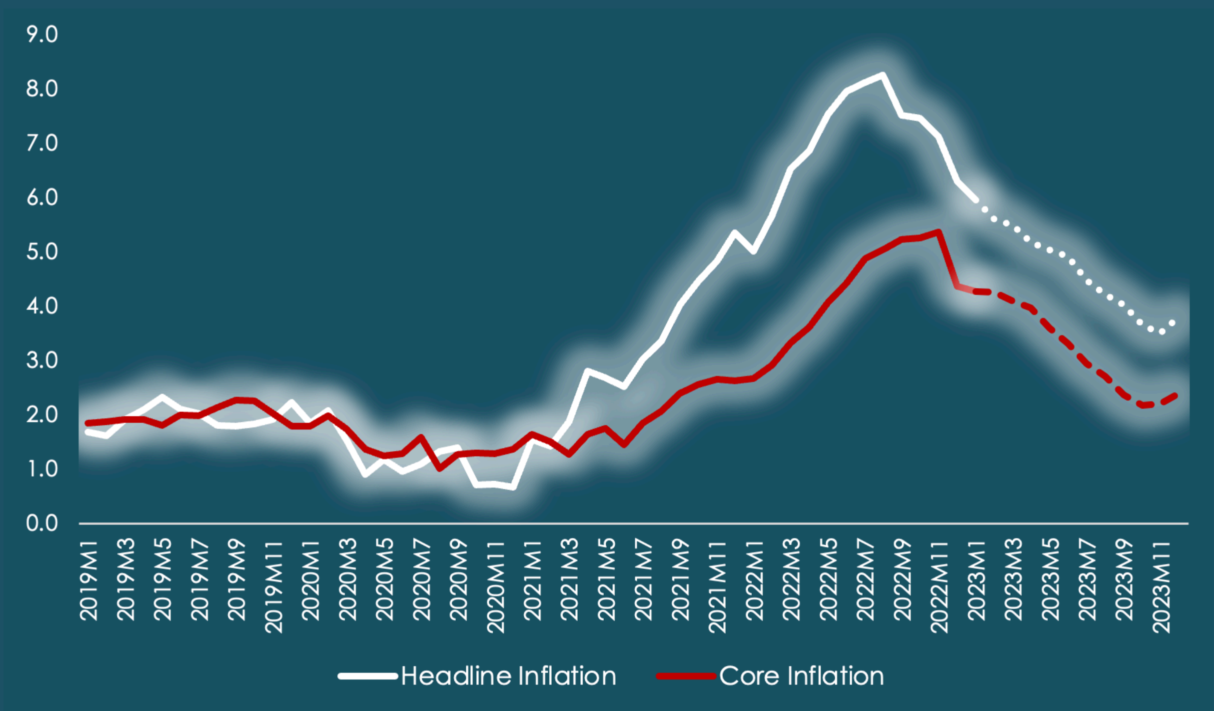
[1] BRIC is a grouping acronym referring to the developing countries of Brazil, Russia, India, and China, which are identified as rising economic powers. It is typically rendered as "the BRIC," "the BRIC countries," "the BRIC economies," or alternatively as the "Big Four." (Wikipedia, https://en.wikipedia.org/wiki/BRIC.)

Global Headline and Core Inflation will Moderate

Global central banks will remain committed to their fight against inflation in 2023. As energy and food prices inflation become increasingly subdued in 2023, we expect global inflation to maintain a downward trend. Interestingly, both core inflation and headline inflation will decelerate in 2023 as currency crises ease and supply chain distribution improves. Headline inflation will slow to 4.7% from 7.0% in 2022 while core inflation is expected to slow to 3.2% from 4.3% in 2022.

> As energy and food prices inflation become increasingly subdued in 2023, we expect global headline and core inflation to decelerate to 4.7% and 3.2% respectively

GLOBAL INFLATION - HEADLINE & CORE



Source: IMF, FDC forecast

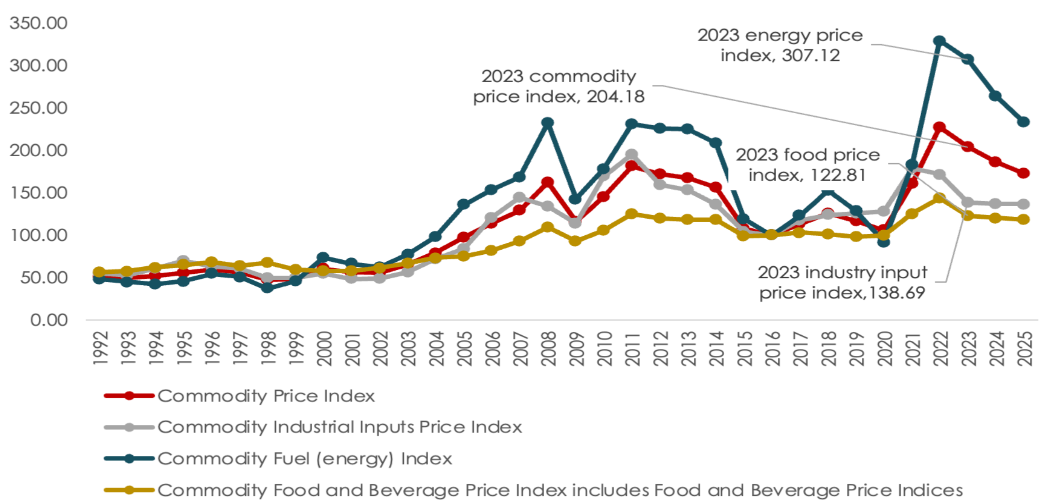
Commodity Price Index

From COVID-19 to the Russia-Ukraine war, the global supply chain has been largely disrupted since 2020, and this disruption peaked in 2022 with commodity prices more than doubling their level pre-COVID. In 2023, commodity prices will remain elevated, but the index will decline by 23.3 to 204.18 due to subdued price increases. Demand for commodities will slow, but supply will increase marginally. Although grain prices have come down from their 2022 highs, they will continue to be influenced by what happens in the Black Sea region, particularly if the arrangement that permits Ukrainian wheat exports to pass through Black Sea shipping corridors despite Russia's blockade of Ukrainian ports is extended. Overall, we expect the food price index to decline by 20.68 to 122.81 in 2023.

Industrial Input Index

The industrial input price index is also expected to decline by 138.69 in 2023 from 172.01. The prices of industrial raw materials surged in 2022 following the invasion of Ukraine by Russia as the supply of aluminum, nickel, and other base metals from Russia dried up. As aggregate demand slows in 2023 and industrial output declines, we expect the index of industrial input prices to decline. However, an increase in demand from China will moderate the declining effect on input prices.

PRICES ARE TRENDING DOWNWARDS AND THIS WILL CONTINUE IN 2023



Source: IMF, FDC forecast

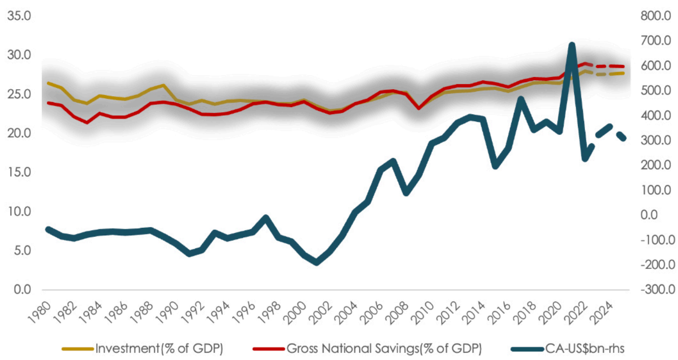
Crude Oil Price

In 2023, the price of Brent crude is expected to average $88.2, down 12% from an average of $98.8 in 2022. Increased restocking of the US Strategic Petroleum Reserves (SPR) and the reopening of China's economy will keep upward pressure on the international price of crude. Also, the projected decline of about 1.5 million barrels per day (mbpd) in Russian crude oil production will support a bullish oil market over the horizon. However, we expect that global oil production will increase by 1.3 mbpd in 2023, and this will offset the price effect of the shortfall in Russian oil production. Also, recession fears and slowing global demand will put downward pressure on the price of crude oil. Overall, we expect the energy price index to slow to 307.1 in 2023 from 329.4 in 2022.

Restrictive monetary will undermine growth outlook

Higher interest rates and elevated inflation weakened household consumption and heightened the cost-of-living crisis across the world in 2022. Inflation rose to multi-decade highs in 2022, pushing most central banks to raise interest rates to levels not seen since the GFC of 2008/09. Although global central banks will be less hawkish in 2023 than in 2022, higher interest rates will weigh on private consumption and investment in 2023. Consumers will draw down on their savings to support their consumption demand due to high borrowing cost. As consumer demand wans, howbeit mildly, investment spending will moderate in 2023 but 2024 will rebound in 2024.

SAVINGS AND INVESTMENT TO SLOW MODERATELY IN 2023

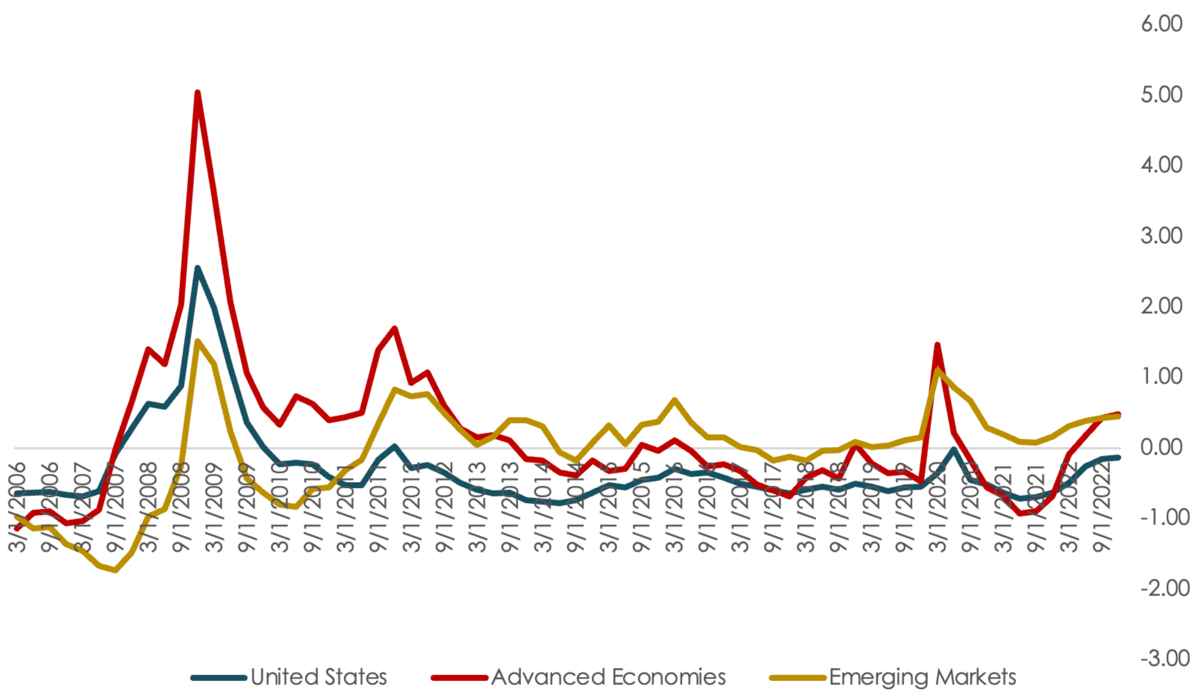


Source: IMF, FDC forecast

Global Financial Condition

By historical standards, financial conditions were tight in most of 2022, especially in advanced and emerging market economies, with the exception of China. The IMF noted that worsening financial conditions have heightened the escalation of dollar funding costs, counterpart credit spreads, and other gauges of systemic risks. This heightens the downside risks to growth and assets selloff. As economic outlook deteriorates amid heightened uncertainties, the risk of markets repricing economic risks rises. Equity risk premia will widen in 2023 as yields fall and market tentativeness increases.

GLOBAL FINANCIAL CONDITION INDEX

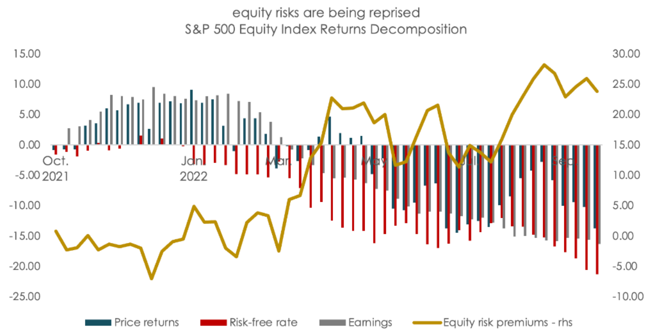


Source: IMF, FDC

Equity Risks are Being Repriced

Emerging markets and developing economies will struggle with sovereign rating downgrades as borrowing costs rise amid subdued fiscal revenue. As the World Bank noted, the fiscal benefits of inflation on government revenue and nominal GDP will be eroded by increased spending. In 2023, the financial system's stability will be under serious threat. Many financial institutions with large exposures to sovereign debt will face rating downgrades, and this will weigh on both the financial sector and corporate performance. Limited access to credit and high costs of borrowing will trigger corporate mortality, widespread unemployment, and a social crisis in developing countries.

S&P 500 EQUITY INDEX RETURNS DECOMPOSITION

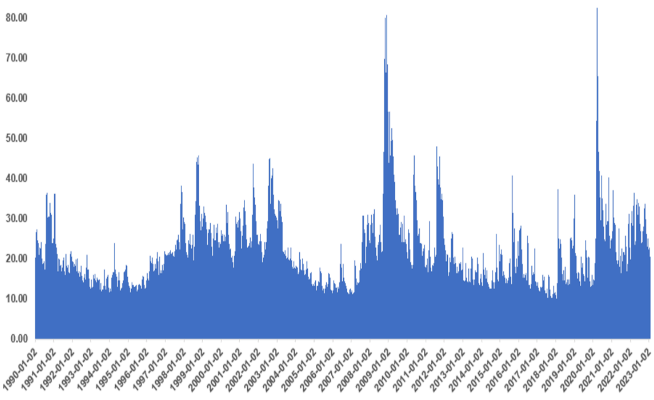


Source: IMF, FDC

2023 is a Different Year

Unlike previous years when central banks lowered interest rates during recessions, this time they will not be rescuied. A decline in capital market liquidity, an economic slowdown, and elevated inflation will heighten market volatility risk in 2023. As financial conditions tighten and monetary policy tightens even further, market fundamentals are expected to deteriorate.

GLOBAL VOLATILITY INDEX (CBOE VIX INDEX)



Source: FRED, FDC

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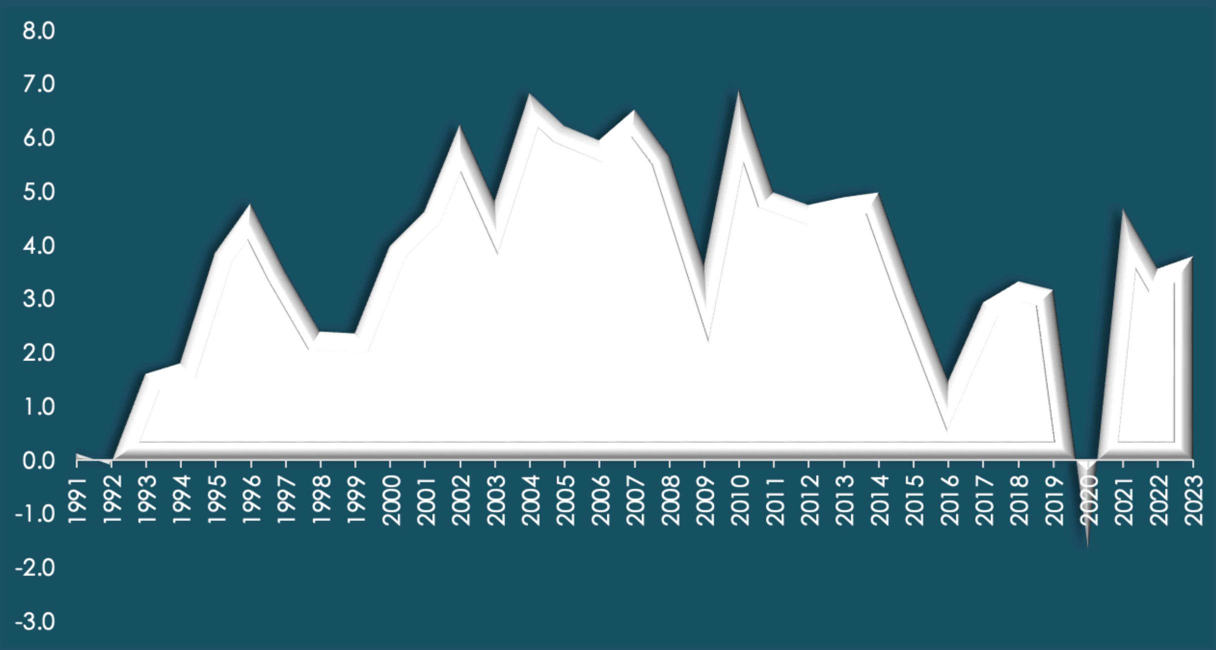
SUB-SAHARAN AFRICAN ECONOMY

Sub-Saharan Africa

In 2022, most countries in SSA had their share of global economic woes, especially non-oil exporting countries. Inflation rose sharply as global food and energy commodity prices surged. Most economies witnessed large depreciation in their currency due to unfavorable terms of trade and widening current account deficits as capital outflows spiked. The increase in interest rates in the bid to curb the spiraling inflation led to a sharp increase in borrowing costs and debt levels. This year, the situation is even bleaker. Interest rates in developed economies will remain elevated while tightening global monetary conditions. Some countries will be visiting the IMF to seek assistance as high-interest rates will discourage borrowings from the international capital market. This will mean complying with various policy programs such as debt restructuring, exchange rate unification, subsidy removal and so on. Ghana is on its way to securing a 3-year extended credit facility of $ 3 billion.

SSA GDP GROWTH (1991-2023)



Source: World Bank, IMF, FDC

Despite these headwinds, FDC is forecasting that SSA economies will grow by average of 3.8% in 2023, surpassing the global GDP growth rate of 2.8% in 2023. However, the downside risks to growth remains weak aggregate demand as inflation remains elevated, weak external balances, fiscal consolidation and structural bottlenecks.

Given the ease in global commodity prices and reductions in currency pressures due to interest rate normalization from developed countries, inflationary pressures across the region will begin to taper. However, due to its structural problems, inflation will remain elevated. Angola will experience a decline in its inflation rate. This means that central banks across the region will begin to lower the pace of interest rate increases. Interest rates could peak in the first half of the year. Inflation is expected to average 12.5% in 2023, down from an estimated 14.5% in 2022.

Currencies in the SSA region will remain under pressure due to trade deficits, weak external reserves, and limited inflow of capital as interest rates across developed countries remain high. However, the rate of depreciation is expected to slow as trade imports decline due to high inflation and the pace of global interest rate hike falls. A possible soft-landing of the global economy could weaken trading activities with the region. This poses a downside risk to export revenue growth as well as a possible decline in global commodity prices.

> “Worsening food insecurity and escalating fiscal crisis in SSA will deepen the erosion of social cohesion and societal polarization which will intensify security risks in those countries.

Looming Debt Crisis in SSA

Sub-Saharan Africa (SSA) will face mounting debt pressure in 2023. According to the IMF report, eight SSA countries are already in debt distress, while 30 others are at high to moderate risk of debt distress in 2023. FDC is forecasting that external debt will rise to $810 billion from $767 billion in 2022. Over the past ten years, Sub-Saharan African countries have accelerated the growth of their public debt (domestic and external debt), leveraging on a decade-long low-interest rate environment to finance their budgets, balance of payments, development plans, and other needs. The current global headwinds and aggressive interest rate hikes are plunging several SSA countries into debt crisis never seen in decades.

The external debt service has risen significantly in the past ten years, up 267% to $102 billion in 2022. About one-fifth of the continent devotes 20% or more of its foreign exchange earnings to servicing its external debt, and this burden is significantly greater for a small number of highly leveraged states, especially Mozambique, Namibia, and Sudan.

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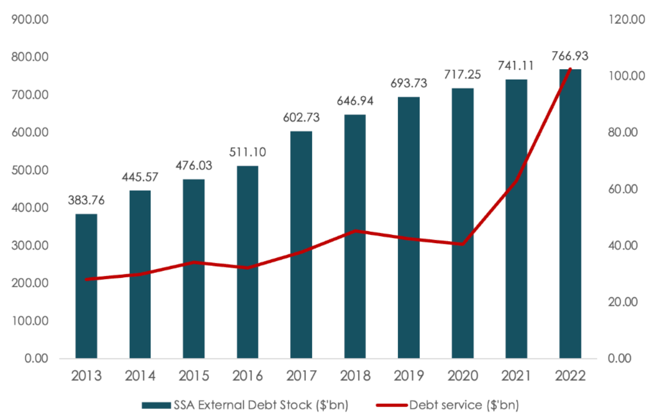
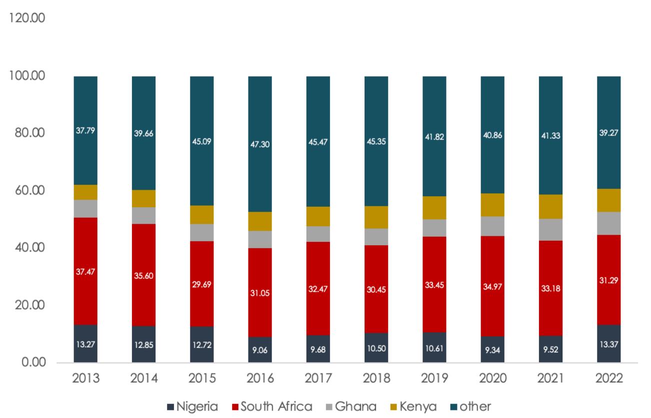
Only four countries accounted for 65% of the SSA debt stock in 2022, with South Africa having 31.29% of the total debt stock in the region, followed by Nigeria (13.37%) Angola (13.11%), Kenya (8.21%) and Ghana (7.92%).

SSA EXTERNAL DEBT & DEBT SERVICE POSITION



Source: IMF, EIU, FDC

SHARE OF SSA DEBT (%)



Source: EIU, FDC

South Africa

After a meager growth in real GDP for the first half of 2022 (1.45%; year-on-year) it was followed by the flood incidence and intensified power cuts. South Africa's economy grew by 4.1% year-on-year in Q3'22, the highest since Q2'21. The increase was supported by a rebound in eight industries out of ten, strong export growth, and increased government consumption. However, this strong growth is unlikely to be sustained due to its entrenched structural bottlenecks such as power cuts and high unemployment.

The rate of inflation in South Africa this year may be lowered by a potential decline in energy prices, which was a significant contributor to inflation last year, due to the ease in global energy prices and decreased currency depreciation. This will help to lower transportation and overhead costs and thereby limit price increases. Food inflation will also follow suit as imported food inflation declines. The inflation rate is expected to fall within the range of the central bank's target of 3% to 6%. Consequently, the country's apex bank is expected to be less aggressive and could mute on rate hikes in coming meetings. The central bank already raised its interest rate by 25 basis points to 7.25% in its last meeting in January, a deceleration from its previous 75 basis points increase.

On the fiscal front, the South African government plans to take on a larger proportion of the debt owed by its state-power company- Eskom, which is about $23 billion. This will make fiscal consolidation difficult in the short to medium term while widening its fiscal deficits and limiting its ability to fund other development projects. Reducing the company's debt is essential to boosting private and foreign investment in the industry. However, the government will be cautious in taking on this debt so as not to raise the country's debt distress risk. Fiscal revenue is likely to decline due to reduced external earnings as global commodity prices fall and a reduction in tax earnings as economic activity weakens.o record an average growth rate of 3.4% in 2023, down from an estimated 3.5% in 2022.

> The downside risks to South Africa's 2023 growth outlook include widening fiscal deficit, softer commodity prices and lingering energy crisis.

Ghana

The highlight of Ghana's economy was a sharp depreciation of its currency owing to global interest rate hikes, constant depletion of its external reserves and further widening of its trade and current account deficits. The cedi plunged by over 90% year-on-year in 2022. This led to a sharp increase in the inflation rate and high living costs. The central bank of Ghana raised its interest rate by about 1250 basis points in 2022 in a bid to curb the spiraling inflation. Inflation averaged 38.9% in 2022, up from the average of 9.97% in 2021. The country's inability to visit the international capital market due to its large debt and high credit risk exposed the economy to global shocks to a larger extent compared to other African countries. Sooner than expected, the country was on its way to the IMF to save it from deterioration.

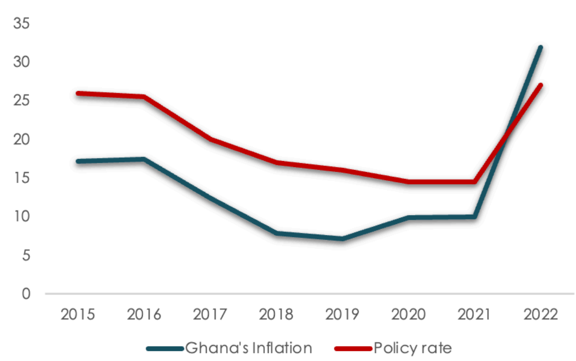
Ghana's GDP growth rate also slowed as high inflation eroded purchasing power and high currency volatility dampened foreign investment and industrial growth, as well as global supply chain disruption. GDP averaged 3.67% in the first three quarters of 2022, which remains below pre-pandemic levels.

The economy was also overweighed with rising debt levels due to increased borrowing cost given the constant interest rate hikes. Its debt-to-GDP ratio rose to a high of 91% in 2022 from 82% in 2021. This limited the government's role in driving economic growth and improving living standards as debt repayment took the centre stage.

Ghana is now at a staff-level agreement with the IMF to secure a three-year loan of $3 billion. The multilateral organization will approve the loan after Ghana undergoes a comprehensive restructuring of its debt, which could take a while. This means that its fiscal policies will be focused on ensuring the economy meets the requirements needed by the IMF for loan approval which also includes fiscal consolidation and the removal of the fuel subsidy. The country will also prioritize the implementation of policies that will help regain its macro-economic stability and sustain its debt.

Economic growth is likely to slow further to 2.0% in 2023 from an estimated 3.3% in 2022 as still-high inflation will continue to erode purchasing power and lower aggregate demand.

GHANA'S INFLATION & POLICY RATE



Source: EIU, FDC

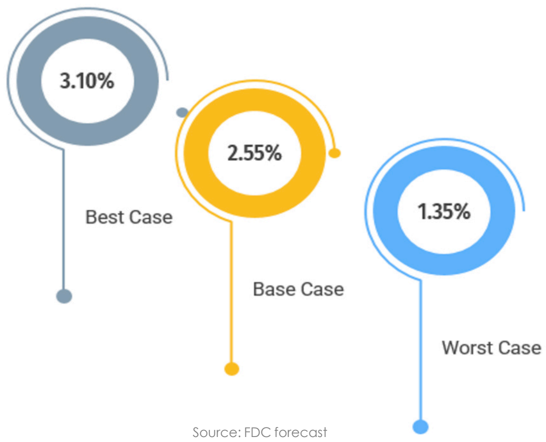
NIGERIA'S ECONOMY

GDP to grow at 1.35% - 3.10% in 2023

Forecasting Nigeria's 2023 growth outlook has become an uphill task due to the multidimensional uncertainty that characterizes the year. The naira redesign policy is causing monumental disruption both in the real and financial sectors. The 2023 presidential election, with its intrigues, is demasking the country's vulnerability and making investors increasingly unsettled. In the same vein, the persistently rising inflationary surge is brewing investor tentativeness as monetary policy tightening could become the new normal.

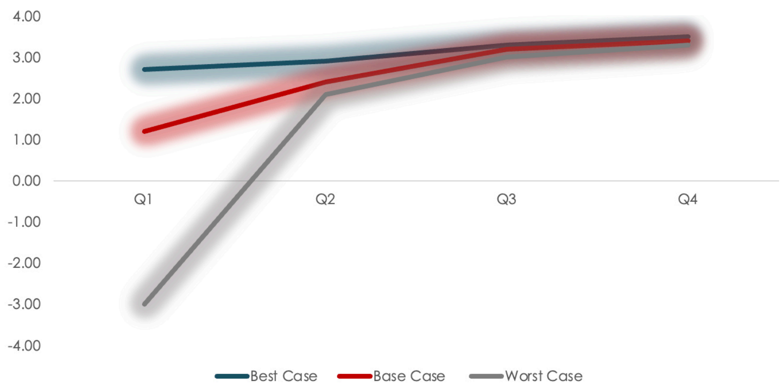
We did a three-scenario outlook under certain conditions or assumptions. The worst-case scenario projects Nigeria's growth to slow to 1.33% in 2023 from an estimated 2.71% in 2022. For the worst case, our forecast shows that the economy will contract by 3% in Q1'23 before rebounding to grow by 2.1% in Q2'23 from 3.5% in Q2'22.

SCENARIO FORECAST FOR NIGERIA'S 2023 GROWTH



Source: FDC forecast

QUARTERLY GROWTH



Source: FDC forecast

The major downside risks include the naira redesign program, election uncertainty, and rising inflation. We assume that the cash crunch crisis will have its maximum impact in Q1 before the economy begins to adjust in Q2 and subsequent quarters

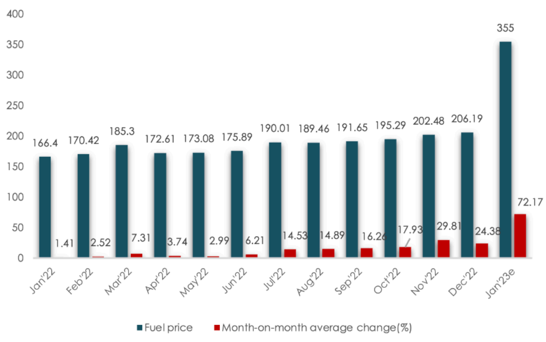
The scarcity of "naira cash" will reduce both private consumption and investment spending. Consumers will prioritize available cash for food consumption, while the demand for durables, clothes, luxury items, etc. will be subdued. This will further shrink business turnover, lead to a buildup of unplanned inventory, and stymie investment spending.

For the base case, it is expected that the economy will dodge contraction in Q1 but slow to 2.4% from 3.5% in Q2'22. The overall growth rate for 2023 under this scenario is projected at 2.55%, down 0.16% from the estimated 2.71% for 2022. Although the cash crunch will disrupt economic activity in quarter 1, recirculation and the exemption rule that allows the N200 note to remain a legal tender throughout the quarter will moderate the output effect of the naira cash crunch. In the best-case scenario, the economy will grow by 3.10% in 2023.The cash crunch crisis in Q1 is expected to decay quickly with only minimal output impact. The adjustment to the use of e-payment platforms is expected to proceed with limited friction. It is also expected that the CBN will recirculate sufficient "old N200" notes to minimize the chaos being caused by the naira scarcity.

Overall, our estimates show that the economic growth outlook for H2'23 is robust. No matter who wins the 2023 presidential election, it is expected that market reforms are inevitable. One of the upside scenarios for growth in H2'23 is the build back of confidence and the implementation of targeted reforms in H2'23 by the new administration. Other upside factors that will drive growth in H2'23 include pent-up demand, slowing inflation and less hawkish monetary policy, increased oil production, a bullish stock market, an expanding real estate sector, and the stratospheric growth of the e-payment and other digital ecosystems.

Moreso, the nationwide fuel scarcity, which has raised the price of gasoline to as high as N400 per litre in some states and an average of N355 nationwide, will weigh on logistics costs. If this persists, there could be renewed inflationary pressure. With the proposed removal of subsidies and commencement of the Dangote refinery, we expect the price of gasoline to average N438 per litre in 2023.

MONTHLY AVERAGE GASOLINE PRICE



Source: FDC, NBS

Oil Production

Sustained improvement in oil production will support growth in 2023. In 2022, oil production plummeted to 1.20mbpd from 1.79mbpd in 2019. It bottomed out to 1.07mbpd in October 2022 before rebounding to 1.27mbpd in December 2022. The improvement in oil production was attributed partly to the pipeline surveillance contract which the federal government signed with Government Tompolo in November 2022. Oil production will average 1.67mbpd in 2023. Also, oil sectors in 2023 and increased transparency of the NNPCL will bolster the contribution of the oil sector to GDP. In 2023, we expect the oil sector contribution to GDP to increase to 7.69% from 6.28% in 2022.

Nevertheless, the non-oil sector will remain the major driver of GDP growth in 2023. FDC is projecting that the contribution of the non-oil sector to GDP in 2023 will average 93.01%. Major activities or sub-sectors that will contribute to the growth of the non-oil sector in 2023 include financial services, telecommunications, manufacturing activities (especially, chemical and pharmaceuticals), and aviation and marine. However, we expect the full impact of interest rate hikes that started in 2022 will be felt in 2023.

NON-OIL GDP

Source: FDC ; NBS

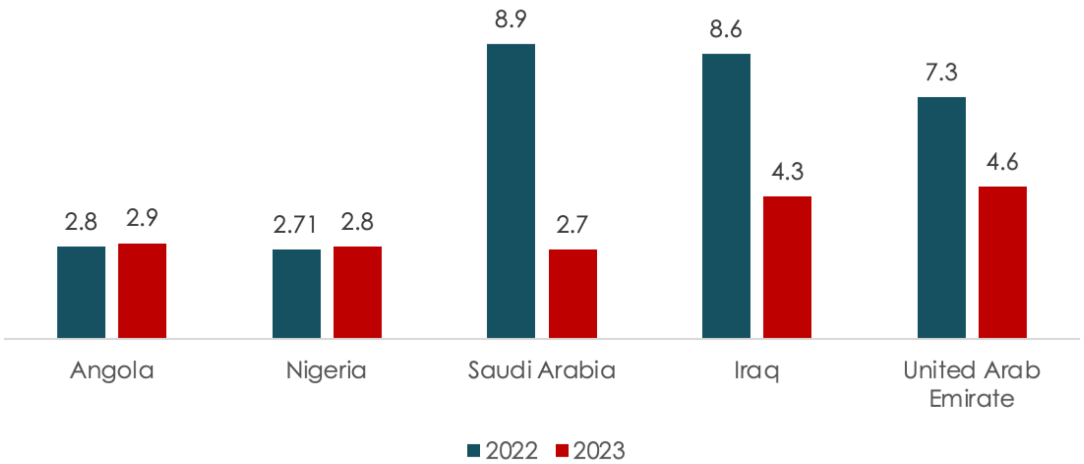
Nigeria, as a net oil-exporter

It is worth mentioning that though the real GDP growth in most of the major net oil-exporting economies, especially the OPEC members is projected to backroll in 2023, Nigeria's real GDP is expected to grow the least. Iraq's economic growth is expected to decline to 4.3% in 2023, clouded by political instability, underdeveloped energy and power infrastructures, and structural deficiencies in the country. A similar trend is seen in the United Arab Emirates, where growth is expected to moderate to 4.6% in 2023 from an estimated 7.3% in 2022.

Furthermore, Saudi Arabia's GDP is expected to dip on the back of lower oil production and regional rivalries. In general, the economic growth among these economies is expected to be moderated by global events such as the oil supply cut threat by Russia in response to sanctions imposed by the West, EU and their allies.

Note that the projected upward growth in Angola's real GDP reflects the lag impact of macroeconomic reforms, a strong currency, elevated oil prices, and favorable macroeconomic conditions. While economies like Angola are expected to significantly benefit from robust oil prices due to supply cuts, Nigeria pays more. Nonetheless, the possibility of higher growth is still evident in Nigeria, with policy recalibration, changes, reforms, and economic restructuring topping the government agenda as the new government scrambles for economic rebalancing.

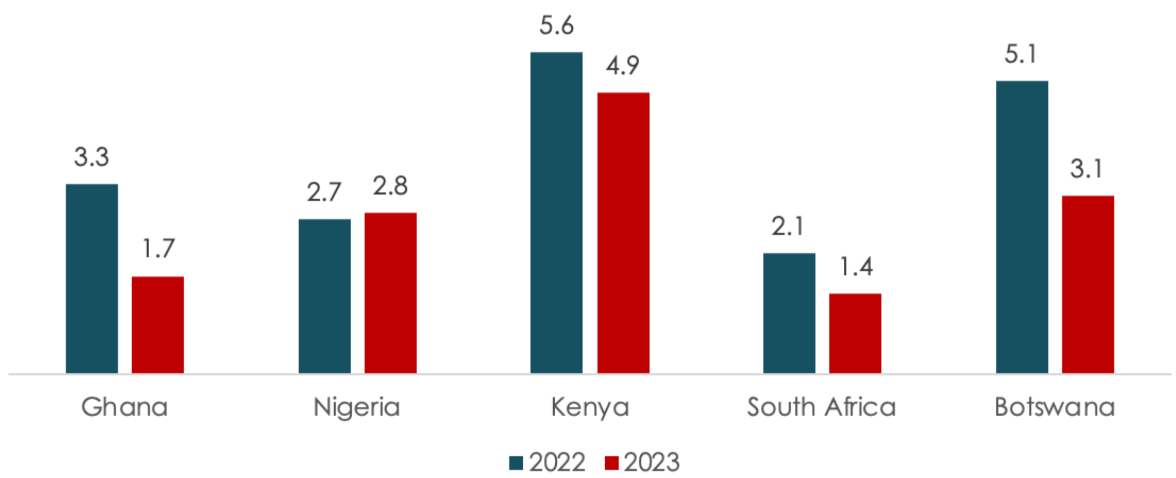
MAJOR NET-OIL EXPORTING ECONOMY



Source: FDC

Similar to Nigeria's net oil-exporting peers, most of its non-oil peers in the sub-Saharan African region are expected to experience a significant decline in real GDP in 2023. The mild decline in South Africa's real GDP growth will result from the improved business environment, which includes structural reforms, fiscal consolidation, and the plan to restructure its public debt. Across sub-Saharan Africa, huge debt service costs, the impact of the global supply disruption, and global commodity price movements will influence economic performance in these economies beyond 2023.

PROJECTED GROWTH (%) IN SELECTED ECONOMIES IN AFRICA

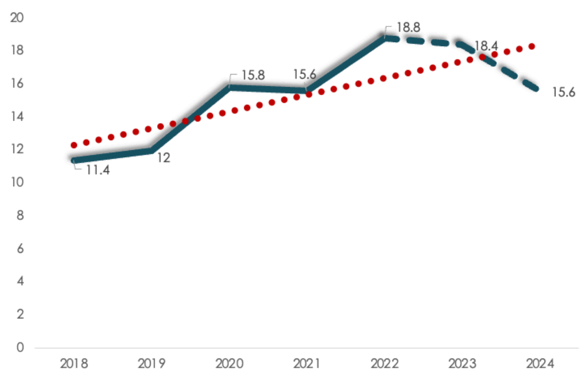


Source: FDC

Inflation Rate to Decelerate to 18.4% in 2023

We expect inflationary pressure to remain persistent in2023. On average, we expect inflation to moderate 18.4% from 18.8% in 2022. %. Nigeria's inflation accelerated to a 26-year high of 18.8% in 2022 (annual average of year-on-year inflation). In January 2023, it further accelerated to 21.82%. Inflationary pressure was quickened in February following heightened supply chain disruptions and skyrocketing energy prices.

INFLATION RATE



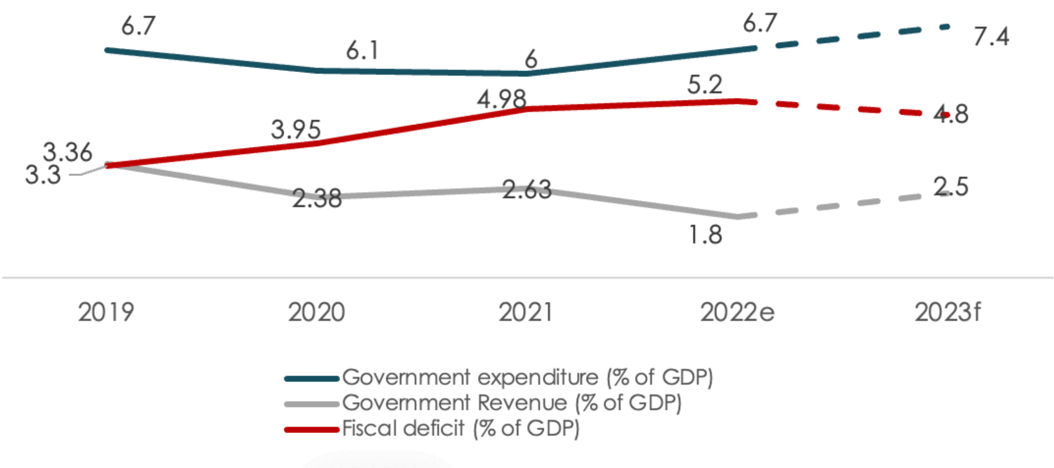
Source: EIU, FDC

In an effort to rein in viciously rising inflation, the CBN began an aggressive restrictive monetary policy in May 2022 raising rates by a cumulative 600 basis points by January 2023. In spite of the aggressive rate hikes, inflation has remained stubbornly high. However, we expect that the CBN will maintain status quo in the next meeting in March. The CBN's decision to halt its private sector direct lending programs and step up its loan collection measures represent additional implied tightening. Also, the proposed securitization of the N20 trillion (US$42.5 billion) FGN Ways and Means advances from the CBN could further constrain liquidity, if the banks are coerced to buy the sovereign bond. The CBN will remain aggressive in tackling inflation in 2023 but its target of returning inflation to its target of 6%-9% range will remain elusive.

Fiscal Deficit in 2023

In 2023, the fiscal deficit burden is expected to plunge to 4.8% from the 5.2% estimated in 2022. The fiscal deficit in 2023 is unlikely to rise as high as it did in 2022.

GOVERNMENT FINANCES



Source: FDC

Specifically, the fiscal deficit is expected to cool in 2023 due to expected increased revenue from oil production and rents. This is despite the huge petrol subsidy bill with its debilitating impact on Nigeria's fiscal position.

The Russia-Ukraine war is persistent, and it is unlikely to come to an end soon. This will keep global oil prices elevated. In the same manner, crude oil production capacity is expected to rise above the level seen in 2022 as security against oil theft improves. Additionally, efficacy in revenue collection is improving. Revenue generation is expected to bottom out, and will contribute to reducing the fiscal deficit in 2023.

Nigeria's fiscal position has been deteriorating for decades, as the government faces low revenue amid higher expenditure needs. Borrowing is not necessarily a bad policy. Rather, the concern is the purpose of the borrowing. Nigeria's fiscal deficit has risen astronomically to above 5% of GDP in recent times.

Unforeseen circumstances, such as the flood that buoyed expenditure on humanitarian services, among others, contributed to the rise of the fiscal deficit in the recent past in Nigeria. Also, the fiscal deficit has been driven by huge debt-service costs, subsidy payments, a large public-sector wage bill, and a significant security outlay.

> "Nigeria is now on a precipice and appears to have hit a brick wall. With tepid growth, limited fiscal headroom, a persistent currency crisis, record high inflation, and worsening imbalances, policy reforms have become inevitable.

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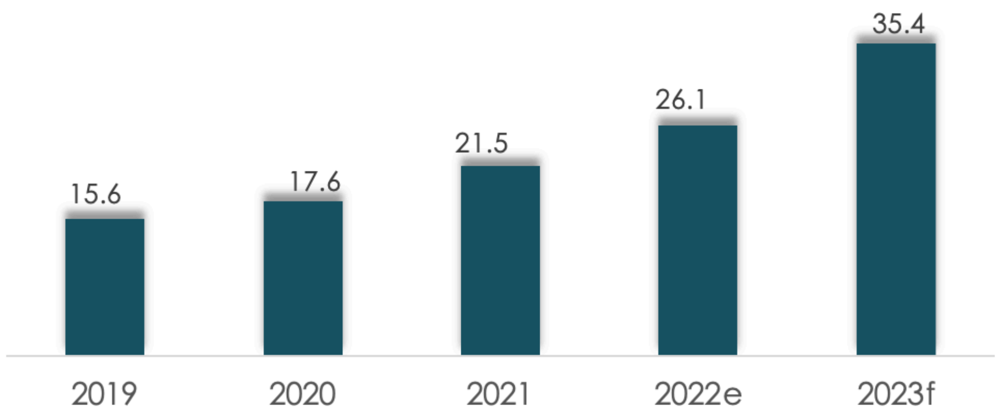
Outlook: Sovereign debts to buoy up by 35.4% in 2023

Public debt remains a big challenge in 2023. It is projected to rise further in 2023 to 35.4% of GDP from approximately 26% estimated in 2022. Though public debt is expected to increase, it will remain under the prudential limit of 40% in 2023.

PUBLIC DEBT-TO-GDP RATIO



Source: FDC

Nigeria's public debt is surging despite the expected capacity development surrounding oil production and improved commodity exports such as high-value agricultural commodities. Public debt is expected to increase owing to the high cost of reengineering and restructuring the economy under the incoming administration.

Also, the ways and means of advances from the CBN to the government are on a rise and will buoy growth in the public debt. Total debt plus ways and means has grown from about 14% in 2015 to approximately 37% in 2022. Nigeria's total debt is expected to hit N77trn in May if the CBN's ways and means securitization is successful. Note that the government has an external debt redemption worth $500 million, or approximately 1.3% of its external reserve stock in 2023.That notwithstanding, the government will continue to emphasize domestic debt more than external debt as a way to reduce the excess burden or higher cost associated with external borrowing.

The problem of low revenue and high debt will push the government towards rejigging the tax structure in the country to improve revenue and curb loan-taking. Also, for the purpose of broadening the revenue base, the informal sector will be more integrated with the formal sector for efficient and effective tax administration. This, however, will come toward the end of the year.

Forex Market Outlook

The forex scarcity is projected to persist in 2023. The CBN's multiple exchange rate regime will continue to disrupt the forex market, widening the official-autonomous market gap. Therefore, the CBN is expected to continue its forex rationing. Our base-case scenario shows that if the official exchange rate is devalued to N510/$, the autonomous market rate will appreciate to N720/$. However, the best-case scenario sees exchange rate appreciating to N620/$ in the autonomous market. To achieve this, the official rate will be devalued to N605/$. We do not see the CBN embark on a big bang initiative in 2023. Rather, it could start a convergence initiative which could lead to an eventual exchange rates unification by 2024.

> The multiple exchange rate system is an arbitrage system that enriches rent-seeking vested interests, imposes implicit taxes on the government and exporters, and disenfranchises legitimate economic agents from the foreign transaction lifeline.

FOREX MARKET FORECAST

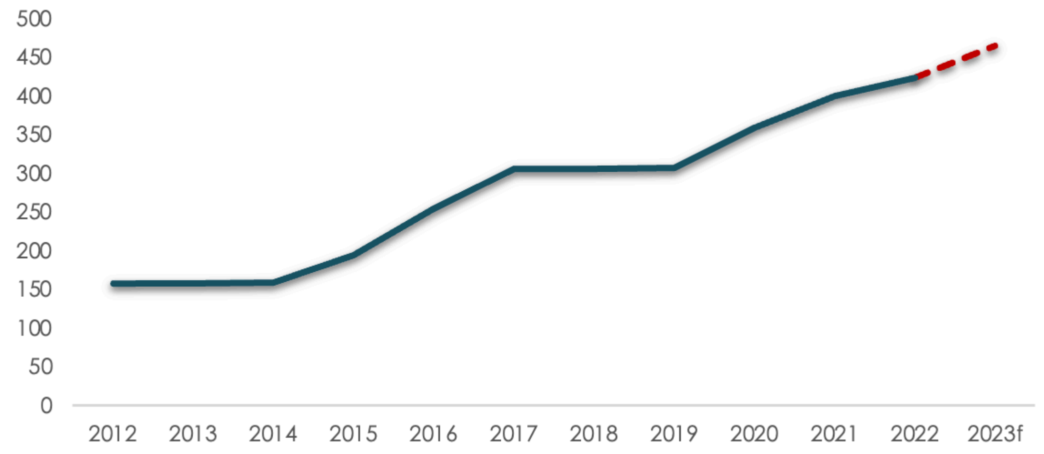
Exchange Rate	Scenario		
	Base	Best	Worst
N/USD I&E Window	510.00	605.00	609.98
N/USD Parallel Market	720.00	620.00	960.00

Source: FDC Think Tank

In 2022, the official exchange rate (IEFX) fell on average by 3.35%, to N428.21/$ from N410.43/$ in 2021. It traded within a band of N415.33/$-N461.67/$, closing 2022 at N461.5/$ from N422.67/$ at the start of the year. At the parallel market, the average exchange rate fell by 27% to N655.30/$ from N515.98/$ in 2021.

The value of the naira against the US dollar fell to a historic low of N805/$ in November 2022 due to increased demand pressure fueled by uncertainty on the naira, before appreciating by 15.42% to close the year at N740/$. Despite efforts by the CBN to consolidate the exchange rate system into a single rate, the naira continued to decline.

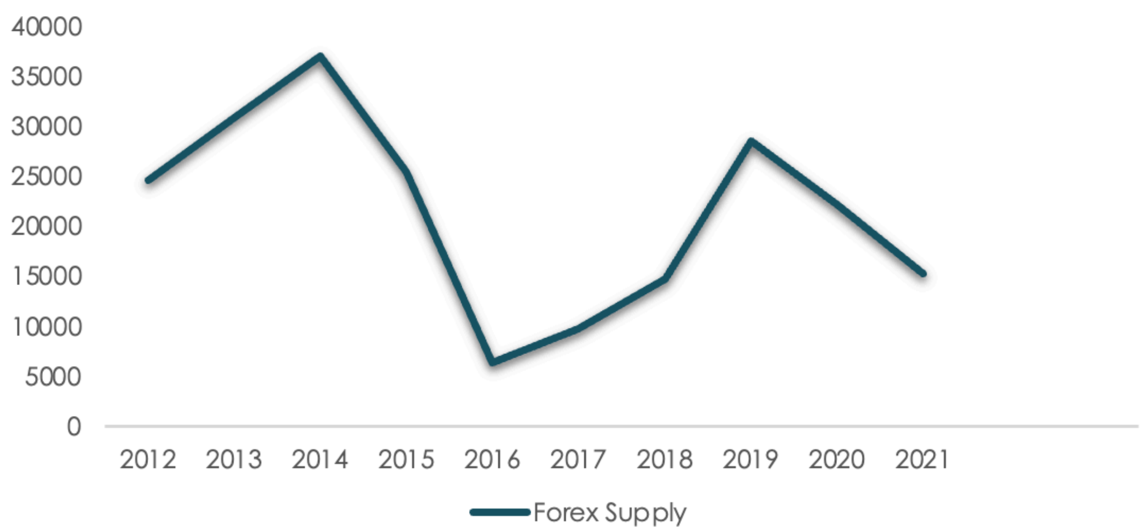
EXCHANGE RATE



Apart from the Russia-Ukraine war and the global rate hikes in 2022, the depreciation of the naira over the years has been driven by a decline in foreign investors' portfolio inflows into the country, low crude oil production and a surge in demand for forex amidst scarcity, especially by companies seeking to repatriate trapped funds.

The supply of foreign exchange is far below its demand by individuals and businesses to import materials or pay bills. Hence, they resort to the parallel market which eventually puts pressure on the naira and triggers inflation alongside other effects.

SUPPLY OF FOREIGN EXCHANGE $'BILLION



There was also the launch of the RT 200 scheme aimed at driving export proceeds into the official channels and merging the official and black-market rates, which failed to do so. Despite the demand by the world bank for a single exchange rate window, the CBN has maintained a multiple exchange rate system.

The announcement by the CBN in October 2022 on the redesign of some naira notes and its implementation prompted a naira sell-off and panic buying of hard currency on the parallel market as many rushed to convert old currency notes.

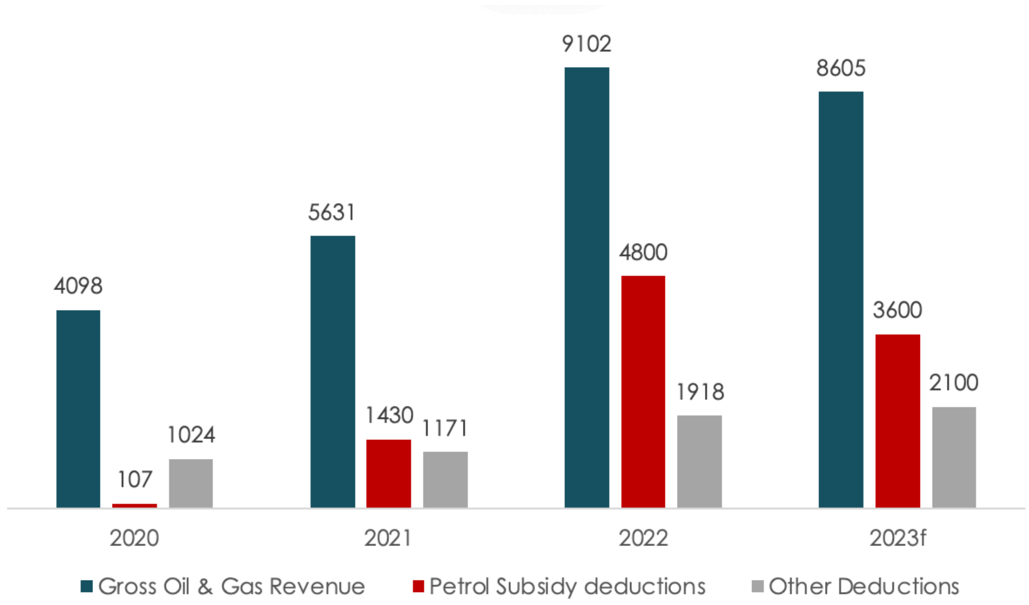
> It is evident that the nation now has limited choices: it must embark on targeted reforms, including debt restructuring, subsidy removal, and other critical market-based reforms.

Fiscal Policy Reform

Nigeria's fiscal space is lean. Fiscal policy reform is essential to invigorating Nigeria's fiscal space. Key fiscal reform in 2023 will be in terms of fiscal consolidation. This includes fuel subsidy payment adjustments. The fuel subsidy remains a cankerworm to the Nigerian economy. The government's decision to end it in June 2023 will enhance Nigeria's fiscal space and bring some relief to the government purse. All the key presidential aspirants are prioritizing fuel subsidy removal.

However, we anticipate that the subsidy will remain throughout 2023 and expect it to be phased out gradually. We project that subsidy deductions from the gross oil and gas revenue will decline to ₦3.6 trillion in 2023 from the estimate of ₦4.8 trillion in 2022. Note that subsidy payment gulped ₦6.3 trillion between 2019 and 2022. The amount could have been used to galvanise investment in critical infrastructure essential for the improvement of the masses' welfare. But the difficulty is in how well the implementation of the decision to take away the subsidy will be received by the public without resistance.

PROJECTED SUBSIDY REDUCTION IN 2023 (N'BILLION)



Source: Augusto & Co, NNPC, FDC forecast

Added to the fuel subsidy removal, serious debt restructuring is inevitable in order to posit Nigeria's fiscal space on a sustainable trajectory. The current fiscal space is quite limited, and because the debt burden and huge debt service cost Nigeria faces are mounting, debt restructuring has become crucial. We expect the debt restructuring process to begin around the third quarter of 2023.

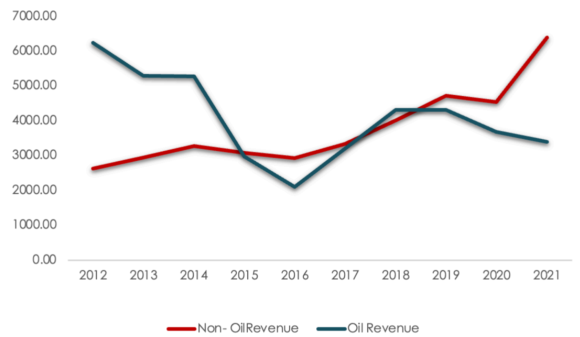
Nigeria's fiscal position is in need of broad buy-in from key stakeholders. Assessing the efficacy of existing tax incentives and reworking the present tax structure is also crucial. Expectations are quite high for whichever part is successful in the upcoming elections.

It is worth noting the changing pattern of Nigeria's tax earnings from the oil-dominant to the non-oil category. Non-oil tax revenue had a performance of 100.9% in 2022, compared to 29.2% for oil earnings. A decade ago, oil revenue and non-oil revenue accounted for 70% and 30% of the country's total earnings respectively but that has not been the case in recent years. Between January and November, earnings from crude oil sales were 74.3% below the prorated target.

However, the dent in oil revenue is being evened out by the leap in revenue from non-oil sources. Hence, the federal government expects to earn 78% of its revenue from non-oil sources, with the remaining 22% from oil as stated in the 2023 budget.

We expect the 2022 finance bill amendment to result in increased non-oil revenue for the government. However, this will have a knock-on effect on the economy as it is coming at a time when manufacturers are battling with higher costs of production and energy prices. The increase in tax rate is expected to further reduce profits for corporate firms. This could hinder employment in the long run due to low incentives to increase production.

REVENUE (N'BILLION)

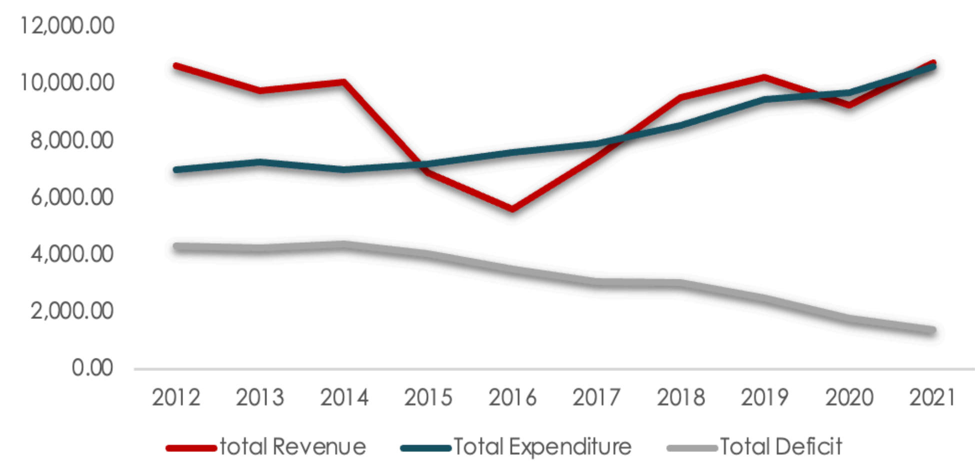


Source: CBN, FDC

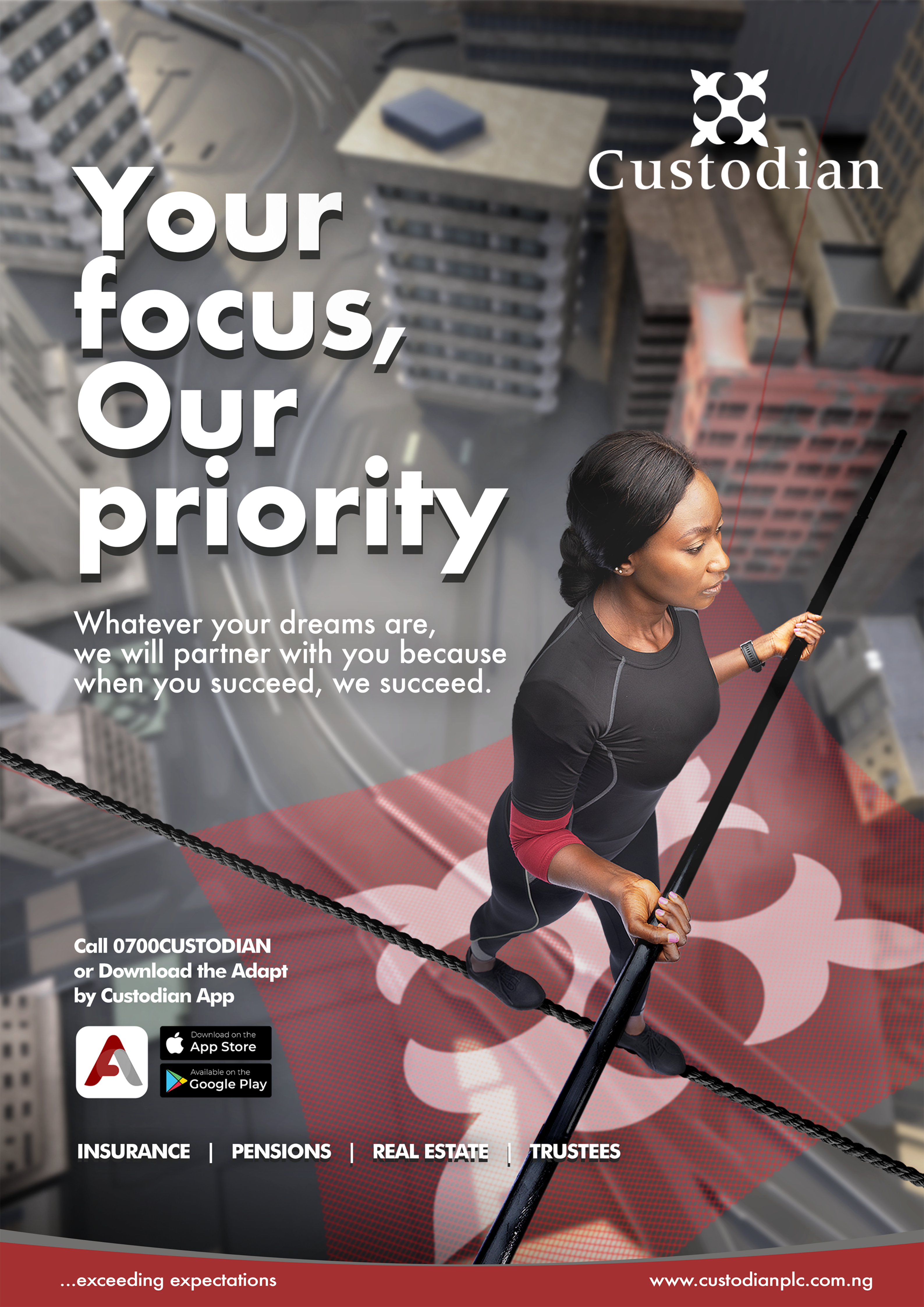
Nigeria is an oil export-dependent economy as it depends on the earnings from the oil sales to settle debts. However, Nigeria is unable to profit from the rising global oil prices because of subsidies which continue to eat up a significant proportion of the country's earnings. The government is projecting a N3.6trn fuel subsidy allocation between January and June 2023. This will further worsen Nigeria's fiscal space and debt profile.

Thus, the fiscal deficit gap is expected to remain wide in the first quarter of the year as government intervention is required to support the economy amidst low revenue. Nonetheless, improved fiscal consolidation is expected to narrow the fiscal deficit at the end of 2023.

FISCAL BUDGET



Source: CBN, FDC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SECTORAL OUTLOOK

Telecommunications Sector

Nigeria has the third-largest telecommunications market in Africa measured in terms of subscribers. Over the last decade, subscriptions in both the mobile and fixed broadband segments have increased significantly. This has resulted in a significant rise in the sector's economic importance.

TELECOM OUTLOOK FOR 2023

Telecom sector	2018	2019	2020	2021	2022	2023
Telecoms investment (% of GDP)	0.20	0.31	0.29	0.31	0.24	0.32
Mobile telecoms revenue (US$ m)	5.83	6.39	5.88	5.16	5.25	6.23
Fixed telecoms revenue (US$ m)	40.1	37.6	29.7	23.9	22.8	21.23
Internet users (m)	62.5	67.5	73.2	78.0	82.2	85.91
Personal computers (stock per 100 people)	6.4	7.0	7.3	7.8	8.2	10.2
Total IT spending (US$ bn)	3.2	3.1	3.1	3.1	3.2	3.9

Source: EIU, FDC

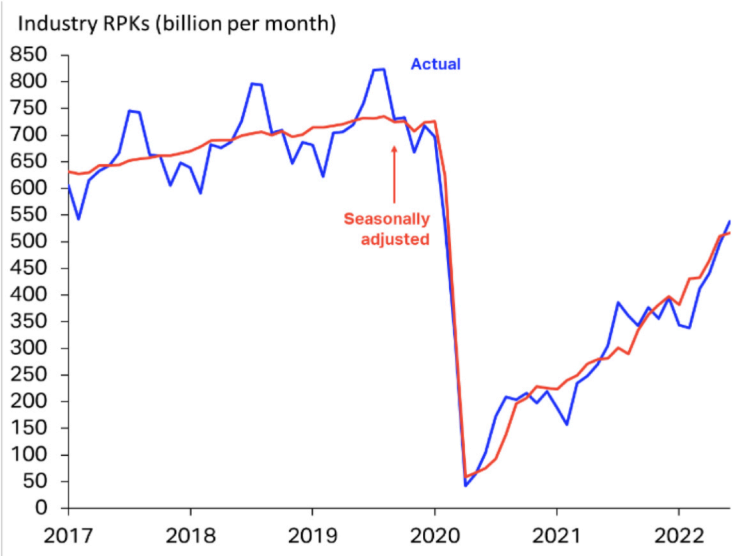
In 2023, the total investment in the sector will increase to 0.32% from 0.23% in 2022. This is due to the development of "stand-alone" 5G, which will require the use of modern infrastructure to function properly. Additionally, mobile telecommunications revenue is expected to rise to $5.23 million as a result of higher demand from 5G adoption. Nigeria generated $547 million from the 5G auction last year. MTN purchased two licenses for $273.6 million each, and Airtel recently purchased their licenses for approximately $316.7 million. It is expected that more telecom networks will purchase their license, which will boost revenue in this sector in 2023. Meanwhile, fixed telecom revenue will continue to maintain a downward trajectory, falling to $21.23 million in 2023 from $22.8 million in 2022.

Demand for fixed telecom services is expected to decline as demand for mobile services rises. This is due to the fact that mobile services are more affordable and flexible for consumers. Likewise, the demand for mobile services will surge, bringing the total number of internet users to 85.91 million. The use of 5G will make the internet faster and more efficient, assisting in the expansion of broadband penetration. Nigeria currently has 40.72% broadband penetration, which is expected to rise to 70% by 2025. Similarly, personal computer users are expected to rise to 10.2 million by 20XX from 8.2 million in 2022. This is driven by increased activities that require the use of the internet. Also, IT spending should rally to $3.9 billion in 2023 as 5G will aid the use of emerging technology such as cloud computing, artificial intelligence, the metaverse, blockchain, and smart contracts. However, due to several imposed taxes and levies on telecom operations in the country, the sector will continue to be threatened by various regulations from various levels of government and agencies.

Aviation Sector

Despite concerns over a new wave of COVID-19, there is an optimistic outlook for the aviation sector as it is estimated to make a full rebound to pre-COVID passenger traffic demand in 2023. The aviation industry rebounded in 2022 by more than 55% as reported by IATA, with revenue passenger kilometres up by almost 70% reflecting the return of international travel. The global industry's combined net income is expected to be $4.7 billion in 2023, its first profit since it had a $26.4 billion profit in 2019, while sales are anticipated to total $779 billion.

GLOBAL AIR PASSENGERS, RPK BILLION



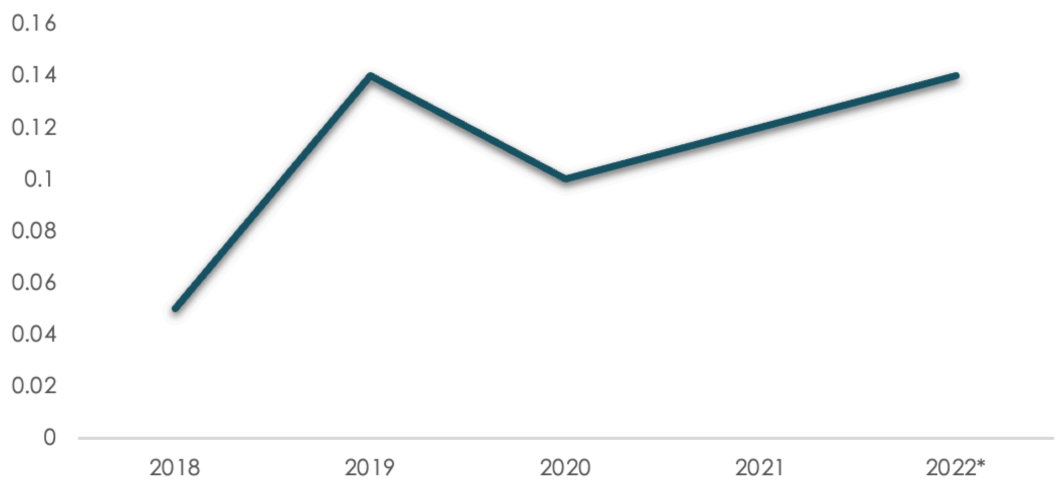
Source: IATA Economics, IATA Monthly Statistics

This projection was a result of the current recovery trend in air travel as well as the progressive measures with vaccinations and COVID testing to ease travel restrictions across countries. The International Civil Aviation Organization also predicted that air passenger demand globally will recover to near pre-pandemic levels in the first quarter of 2023, and the demand will increase by about 3% above that of 2019 by the end of the year.

In 2023, the Nigerian aviation sector is expected to grow due to technological developments in the sector, especially by aviation businesses that are innovative and ready to seize new opportunities. Given the insecurity concerns in the nation, we are likely to witness a shift towards air travel from road and rail transportation. Recently, there has been increased confidence in the aviation sector as the industry recorded milestones in 2022. One example is the installation of airfield lighting on the busiest runway in the country, the R18L which is the domestic runway at the Murtala Muhammed International Airport, Lagos. The installation comes after almost 14 years of operation. Nigeria's largest carrier, Air Peace also begun operations to China and other regional destinations.

The biggest dangers or obstacles for aviation firms may be supply chain disruptions and a skills deficit amidst global economic tightening. The inability of foreign airlines to repatriate their earnings has also been worrisome for stakeholders. According to IATA, almost $2 billion is being blocked by over 27 countries. Nigeria is currently leading with blocked funds worth $551 million, followed by Pakistan and Bangladesh. Hence, the withheld funds are likely to impede foreign direct investment in the aviation industry and hinder the contribution of the sector to Nigeria's GDP.

CONTRIBUTION OF AIR TRAVEL TO GDP (%)

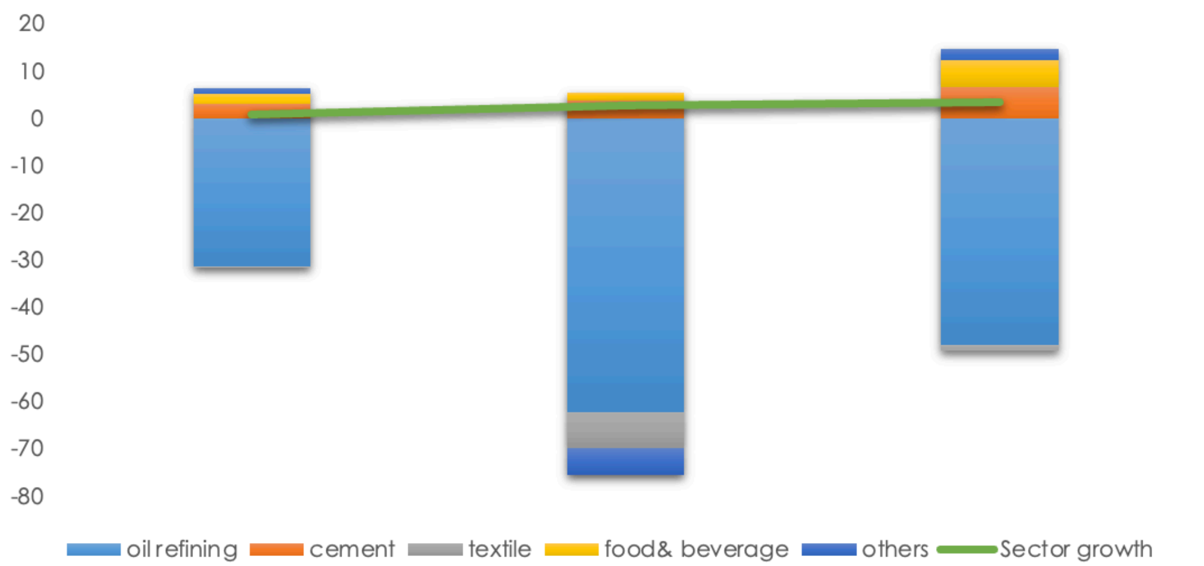


Source: NBS, FDC

Manufacturing Sector

The manufacturing sector's growth will remain subdued in 2023. Output growth in the sector will slow to 1.3% in 2023 from 2.2% in 2022. Restrictive monetary policy and the currency crisis will substantially weigh on the sector’s outlook in 2023. If the CBN proceeds with its cashless policy and enforces the deadline for the use of the old currency notes (N200, N500, and N1000) as legal tender, the manufacturing sector will suffer the brunt of the abrupt cashless policy and cash crunch that will result due to the scarcity of the redesigned notes. Also, the apex bank's decision to maintain a tight monetary stance by hiking interest rates by 100bps to 17.5% will increase the cost of borrowing. This will negatively affect investment in the sector.

MANUFACTURING SECTOR GROWTH

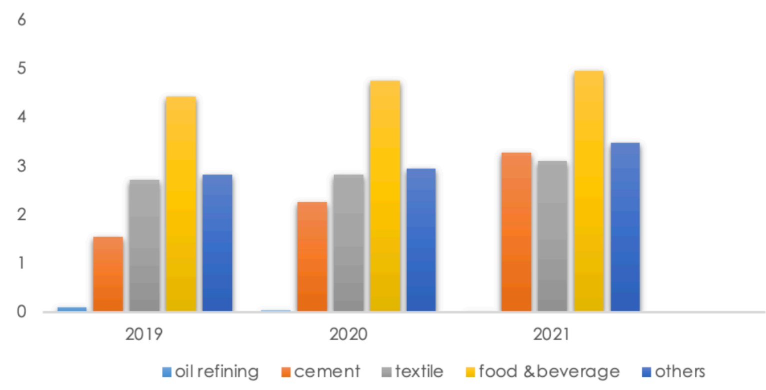


Source: NBS, FDC

Elevated energy prices and inflationary pressure will weigh on the sector’s outlook. In 2023, high energy intensity industries and businesses that rely heavily on investment demand will be the most vulnerable. However, the global supply chain disruption experienced between 2020 and 2022 is expected to ease in 2023, providing some relief to the sector. In addition, the significant decline in Nigeria’s oil earnings would prompt the government to focus more on other sources of revenue. This has led to an increase in taxes at all levels of government. Multiple taxation would put additional pressure on this industry, potentially fueling inflation.

In the second half of the year, it is expected that there will be a rebound in the sector's performance. This is due to easing inflation, a less aggressive hike in interest rates, the adjustment to a cashless economy, and increased political certainty. The new administration would aim to rebuild confidence in the economy through economic reforms and market restructuring. Also, there would be stability and unification of the exchange rate in both the official and parallel markets. All of this should aid in the positive growth of the sector.

MANUFACTURING SECTOR'S CONTRIBUTION TO GDP



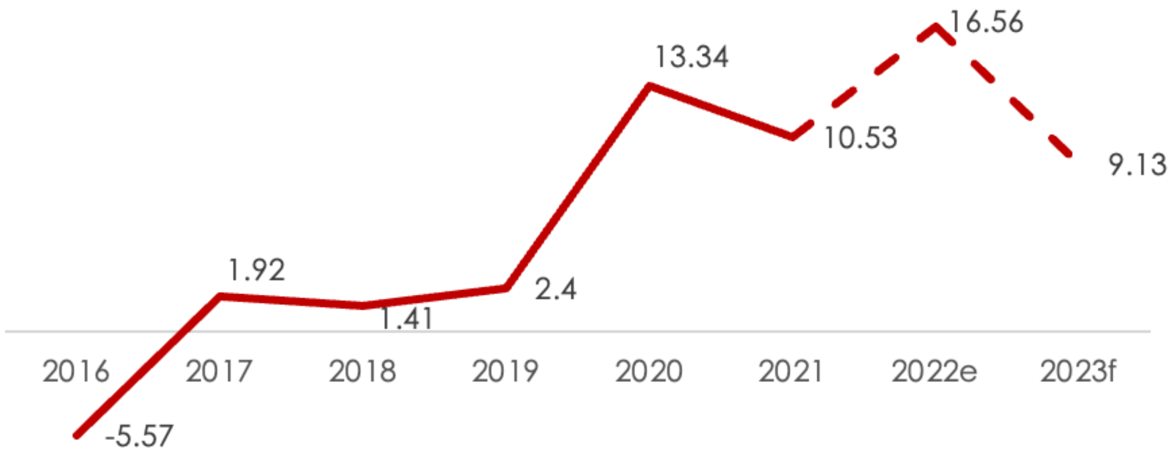
Source: NBS, FDC

Financial Services Sector

Financial services remain one of the sectors most vulnerable to the twists and turns of economic events, and failed, inappropriate, or misaligned economic policies. The performance of the sector will be threatened by upside risks from high interest rates and exposure to sovereign debt. In periods of restrictive monetary policy, the risk of debt default rises for both corporates and individuals. Demands for loanable funds will also decline. Given that deposit rates do not rise as fast as the MPR, deposit mobilization will be subdued. In 2023, banks will face a higher constrained margin than in 2022.

We expect the sector to grow by 9.13% compared to the 2022 estimated growth rate of 16.56%. Fuel scarcity and the cash crunch are rapidly reducing the volume of transactions in the economy, causing the level of goods distribution and trading activities to fall. The impact of these two big shocks on the financial industry will also be seen in terms of the rising level of loan defaults, non-performing loans, and impairment charges.

FINANCIAL SECTOR PERFORMANCE



Source: NBS, FDC Forecast

These challenges are expected to constrain the sector in the meantime. Also worth noting is the influence of the global slowing down in the performance of big tech companies which may affect the financial sector's headroom in 2023. In all that, the decline in the sector's performance in 2023 is expected to be mild as the outlook for some of the sub-activities in the sector, including the pension service, appears a bit promising. More so, the current level of bank liquidity and capital buffers will likely help to provide the sector with reasonable headroom. A high borrowing cost is also important to the financial sector's performance. We expect the interest rates to remain reasonably high to bolster net interest income through impressive yields on financial instruments. In addition, a high-interest rate will enhance interest margins between deposit and loan portfolios.

Policy reform is inevitable; we expect post-election policy reform in the sector to help bring efficiency into the sector. The expected rise in the trading activities in some of Nigeria's trading partners, including China and the EU, are expected to have a positive spillover on the financial industry, especially the banking sector in Nigeria. This will be supported by the expected growth in the stock market in 2023.

Agricultural Sector

The agricultural sector will continue to face the twin challenges of rising farm costs and worsening insecurity in 2023. Elevated inflation amidst on-going war in Ukraine will keep the price of fertilizer, seedlings, and animal feed elevated in 2023. As the CBN's cheap money (including Anchor Borrower Program and other intervention money) dries up, agricultural financing will slack. However, the risks of insecurity remain high, especially in Northern Nigeria.

There will be renewed effort by the government to support agricultural investment in line with its economic diversification agenda. Oil production fell by 40% compared to pre-pandemic levels, pushing the government more toward an agrarian economy. The agricultural sector is made up of four sub-sectors with the crop production sub-sector accounting for over 90% of the sector's output. This leaves the remaining sub-sectors (livestock, forestry, and fishery) at less than 10% combined. We expect this trend to continue in 2023 as the post-flooding effect takes place and unusual rainfall supports cocoa output in the country. Furthermore, in line with previous trends, we expect to see higher growth levels in the agricultural sector in Q4'23 and in Q1'23 owing to the rise in output from the harvest during this period.

The livestock sub-sector will also witness higher levels of growth this year as the World Bank partners with the government with the goal of reducing farmers-herders conflict and increasing productivity in the sub-sector.. This is the first time in 20 years that the Bank has agreed to invest in the development of Nigeria's livestock. Its growth in previous years is attributed to the widespread vaccination of livestock against transboundary illnesses which helped protect the nation's livestock sector. More than 12.5 million doses of vaccinations against transboundary animal illnesses of cattle and poultry were purchased and delivered between 2020 and 2022. This is planned to continue until 75% coverage is reached, which will ensure the eradication of these diseases and encourage the expansion of the subsector.

Regarding international trade, both imports and exports of agricultural goods are likely to rise during the year despite the negative effects of the rising COVID cases in China and elevated inflation rates. This is due to the greater interconnectedness of the country with international parties, the continuous domestic demand for necessity goods and lower global food prices, which should spur demand.

For 2023, which is expected to be recessionary and election year, it would be logical to expect a decline in agricultural growth. However, the sector's real GDP value in recessionary years (2016 and 2020) surged by 4.13% and 2.17%, respectively, and in the 2015 election year, by 3.7% due to the effect of climate change and higher levels of agricultural funding.

In conclusion, the agricultural sector is expected to maintain its upward trend in 2023 and will be supported by the increased presence of agritech in the country, as well as the country's population which is expected to reach 400 million by 2050.

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