



Amid the unprecedented!

Quarterly Economic Report - Nigeria

2021



Prepared by:



PearlMutual Consulting

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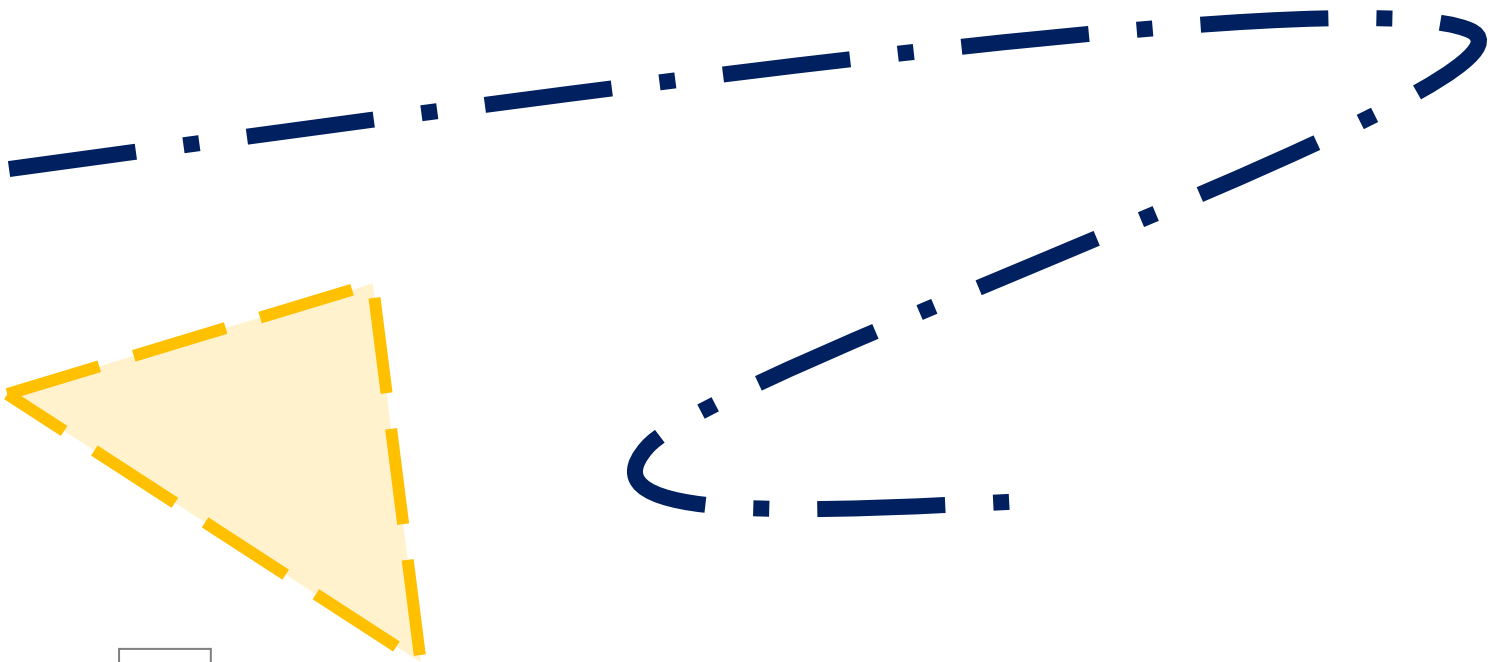
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Amid the unprecedented!

Nigeria's Quarterly Economic Report – Q1 2020

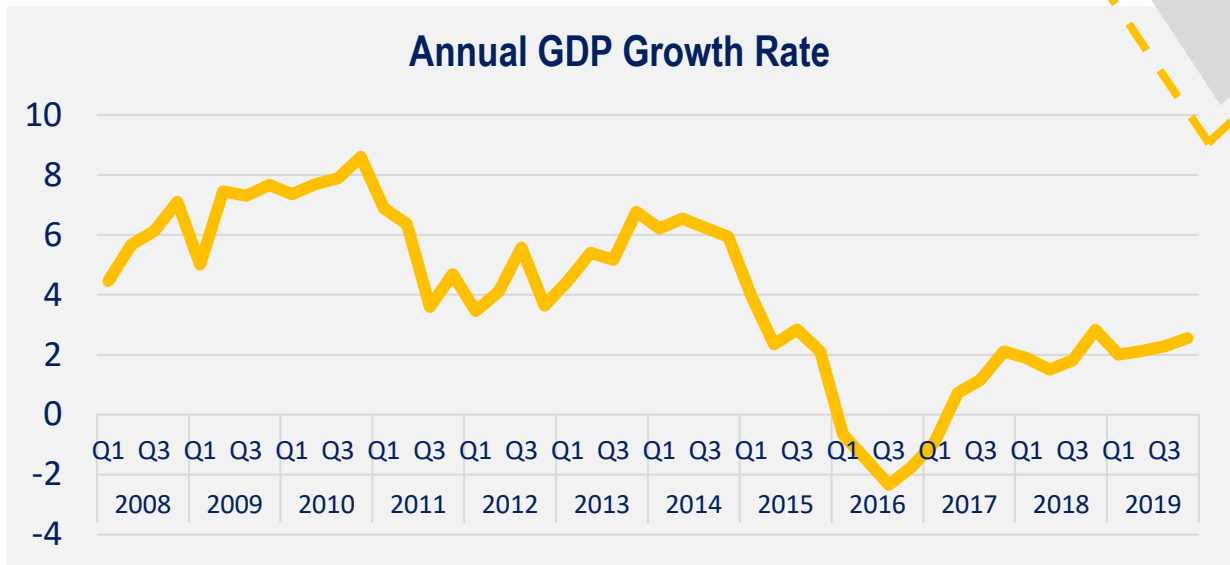
The year 2020 started with lots of economic prospects for Nigeria. This was premised on a lot of factors including the continued growth in both the oil and non-oil sectors, the early passage of the 2020 budget, sustained stability of the exchange rate and the continued interventions in critical sectors of the economy by the Central Bank of Nigeria (CBN). The border protection policy had encouraged and stimulated domestic production of Agric products; particularly livestock and rice (leading to the creation of more employment opportunities) and was expected to be sustained somewhat in the medium term. However, the economy took a downward dive, as the outbreak of the novel coronavirus (COVID-19) which has become a global pandemic began to creep into the country.



...on a free fall!

Key Economic Performance Indicators

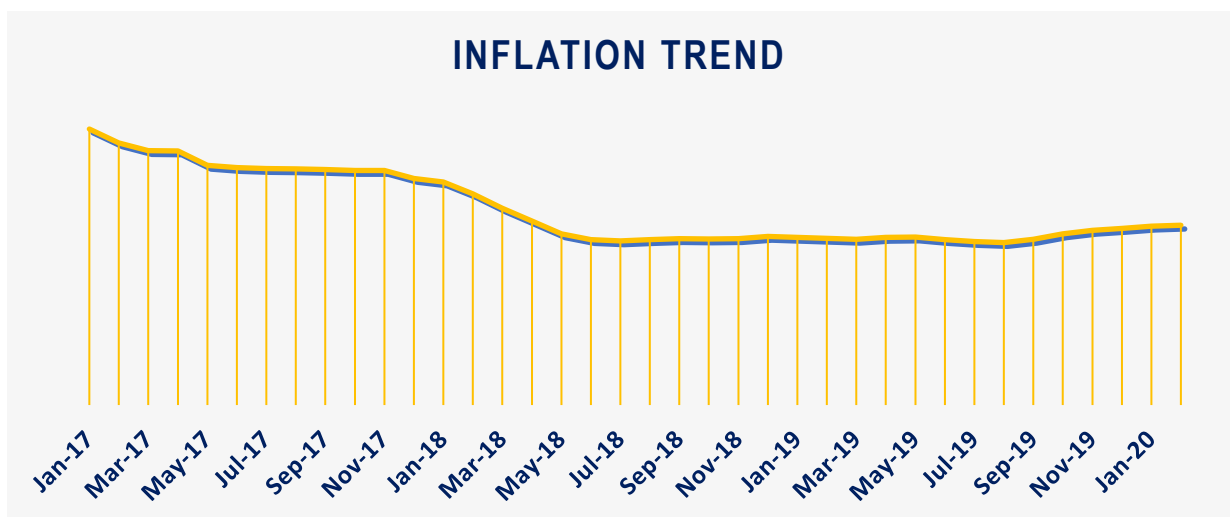
GDP



The economy grew in Q4 '19, with the annual GDP growth accelerating from (2.28% '19) to 2.55% -- the strongest expansion since Q3 2015 mainly driven by the oil sector and Improved dynamics in the non-oil segment of the economy.

Inflation

Figure 1: Nigeria Inflation Trend



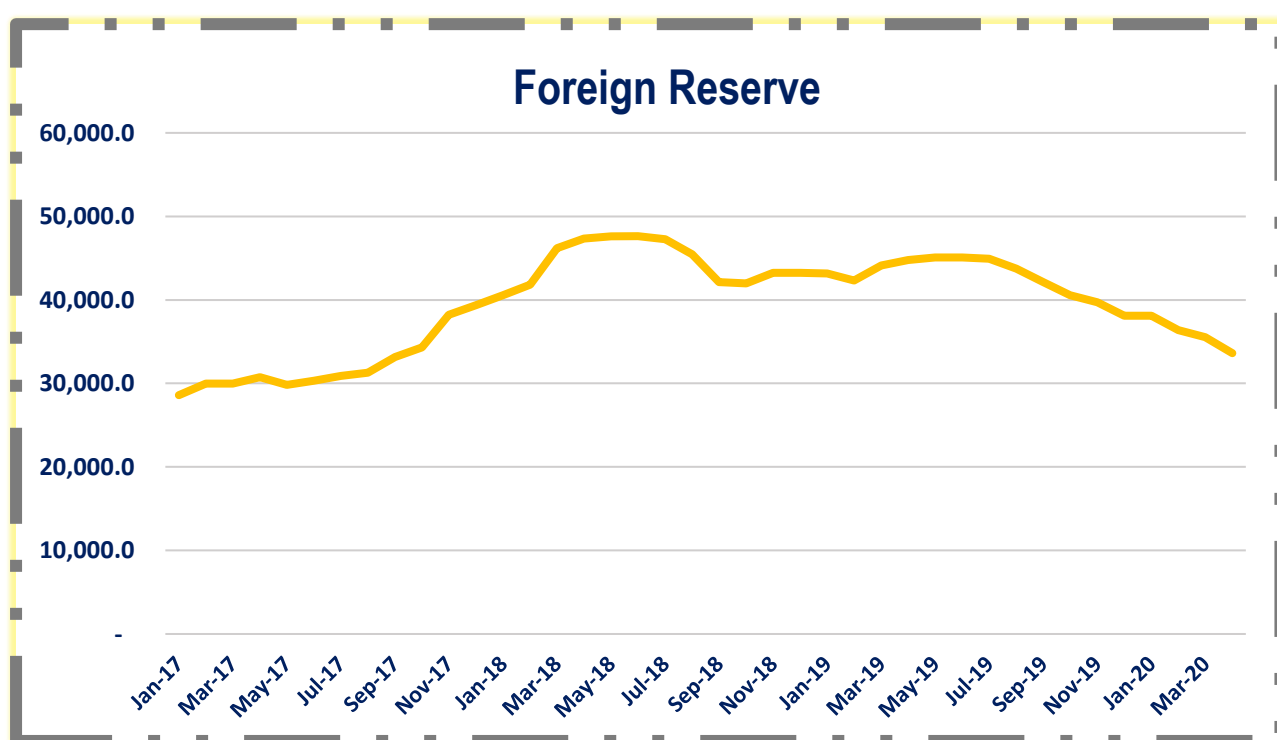
Source: NBS

The CPI stood at 12.26% for Mar 2020 (from 12.2 % in Feb 2020) representing a 23-months high, amid the continued inflationary impact of borders closure and the recent hike in VAT to 7.5%. Considering the present realities and the on-going global public health crisis, we believe that factors such as reduction or scarcity of food supplies and other essentials will put an upward pressure on inflation in 2020. However, lower effective demand due to reduction in income may dampen the pressure.

Foreign Exchange

With oil being Nigeria's major source of foreign exchange and amid the steep decline in oil prices, the official exchange rate has been adjusted from N306 to N360. The exchange rate under the investors and exporters (I&E) window was also been adjusted from N360 to N380 to unify the exchange rates across all trading windows. We also estimate that the ability of the CBN to intervene in the foreign exchange market could be weakened as oil exports, (which drive up foreign exchange reserves) have reduced significantly. As at mid-April, the stock of unsold cargoes of oil reached sixty (60) for Nigeria.

External Reserve

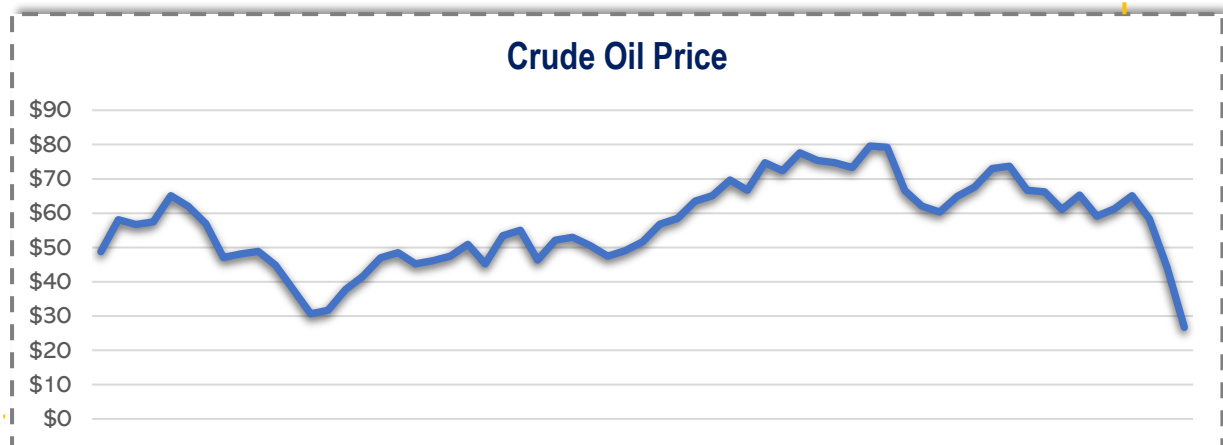


The nation's external reserves continue to come under pressure amidst plunging oil price as external reserves decreased to \$35.5b in Mar 2020 from \$36.38b in Feb 2020, representing a 29-month low! We opine that the apex bank will continue to defend the naira notwithstanding. This steady decline in external reserves has heightened fears regarding the possibility of a further currency devaluation.

The Oil Price Bust!

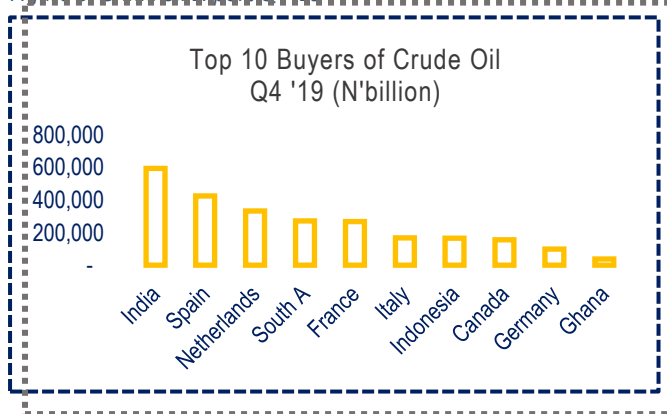
As the world demand for oil fell in response to lower levels of industrial activity, key suppliers tried to outdo each other by reducing the price. The resultant sharp plunge in oil prices was also exacerbated by the fallout in the OPEC+ alliance after Russia pulled back from Saudi Arabia's demand for deeper output cuts to further tighten global supplies which could have provided support for crude oil prices. In the midst of this chaos, Nigeria has cause to be concerned, as oil and gas revenue accounts for an average of 60% of the country's revenue.

Figure 2: Crude oil price from 2015 till present



Source: CBN and PearlMutual Analytics

Figure 3: Crude oil Export Q4 '19



Source: NBS

According to Foreign Trade Statistics Q4 '19, Nigeria's crude oil accounted for 76.08% share of its total export with India, Spain, Netherlands, South Africa, France, among others being the major buyers of crude oil. With the decline in crude oil demand, Nigeria is not exempt from the current present supply glut, which now stands at 60 Cargoes for the country. A scenario where the current conditions persist for more than three

months, will have a heavy toll on the Nigerian economy and result in serious hardship on the populace.

Nigeria, with a maximum crude oil production capacity of 2.5 million barrels per day, ranks as Africa's largest producer of oil and the sixth-largest oil-producing country in the world.

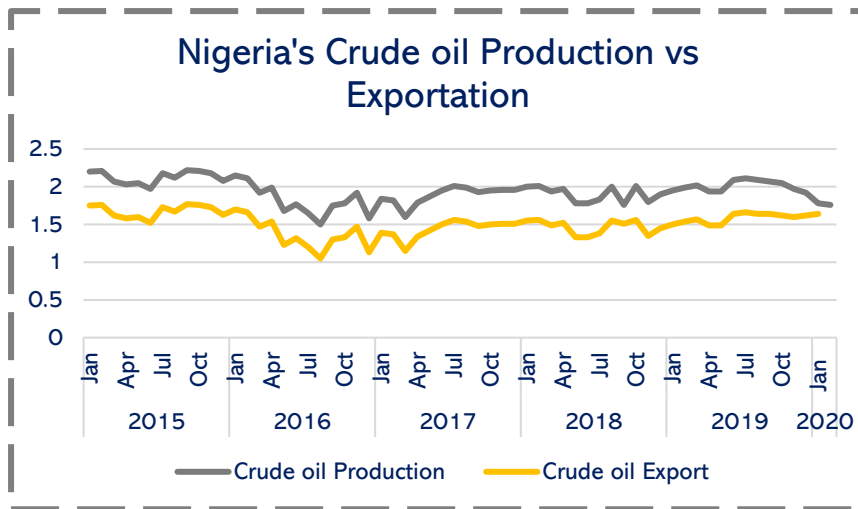
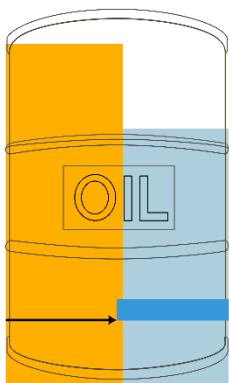
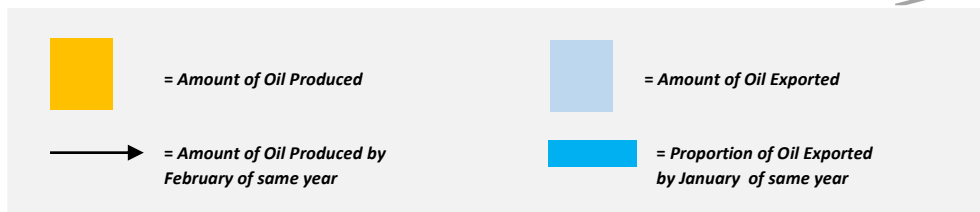
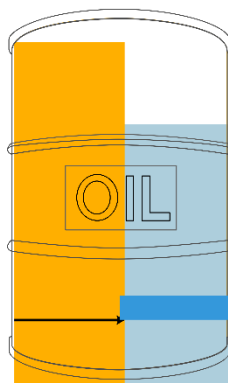


Figure 4: Nigeria Crude Oil Production vs Export

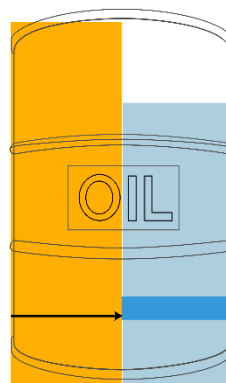
Source: CBN and PearlMutual Analytics



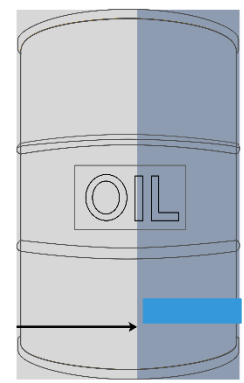
2017



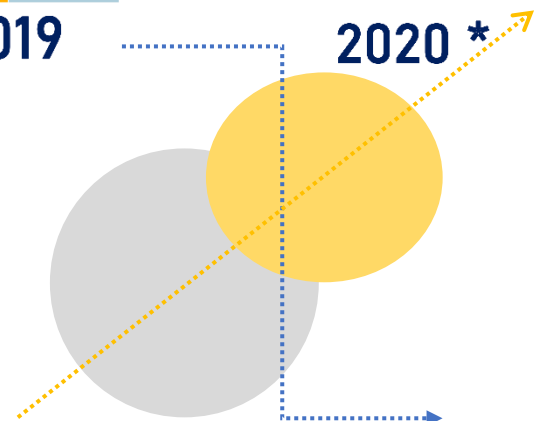
2018



2019



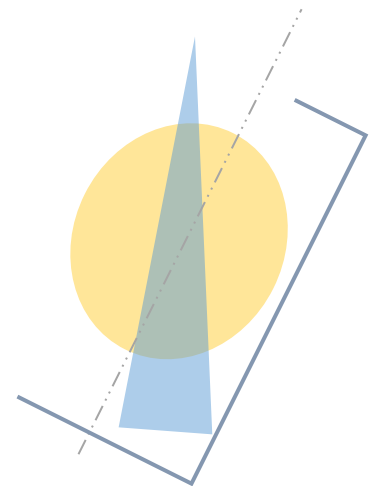
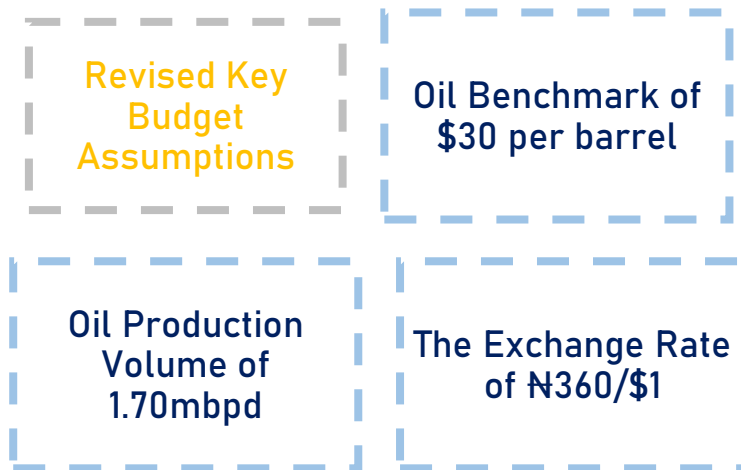
2020 *



The Revised Budget

Since the outbreak of the coronavirus, most economies have negatively been impacted, including crude oil-exporting (and crude oil-dependent) economies like Nigeria, because of the unprecedented decline in crude oil prices. This has led to a downward review of the N10.5 trillion 2020 budget, which was initially based on a crude oil production volume of 2.18mbpd and a benchmark of \$57 per barrel

Figure 5: Reviewed Key Budget Assumptions



Source: Premium Times

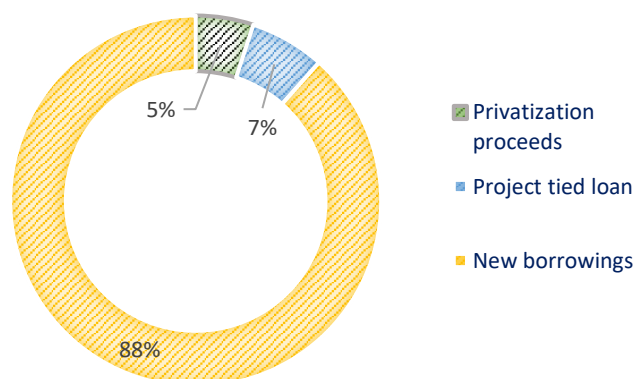
The revenue projection for the 2020 budget was reduced to N5.08 trillion (about 39%) from the initially approved amount of N8.41trillion. Among the expected sources of revenue for the year, projected oil revenue suffered the highest reduction from N2.63 trillion to N254.25 billion (90% decrease). While non-oil revenue declined from N1.8 trillion to N1.53 trillion.

Consequently, the adverse impact on government revenue will lead to an increase in borrowing, debt servicing, currency value and attendant impact on funds available for capital expenditure.

The fiscal deficit is expected to be financed through fresh borrowing of N4.43 trillion as against the initial borrowing plan of N1.59 trillion, implying that the budget will be funded with 88% of debt financing.

Figure 7: Debt Financing

DEBT FINANCING



Impacts of COVID 19 on Nigeria Businesses

The world is an interconnected global village and Nigeria businesses are not immune to the adverse effects caused by COVID 19. We believe that many businesses will be impacted negatively. However, the extent of the effect of the virus varies from one industry to another.

Table 1: classification of Businesses based on Impacts of COVID 19

WINNING INDUSTRIES	LOSING INDUSTRIES
PHARMACEUTICALS	AVIATION
E-LEARNING	OIL AND GAS UPSTREAM
TELECOMMUNICATION	HOSPITALITY
LOCAL MARKET AGRICULTURE	ENTERTAINMENT
MEDICAL SUPPLY AND SERVICES	REAL ESTATE
DATA ANALYTICS	TOURISM
PERSONAL AND HEALTHCARE PRODUCTS	NON-ESSENTIAL PRODUCTS
MANUFACTURING	MANUFACTURING
	EXPORT FOCUSED TRADING

Source: PearlMutual Analytics

Policy responses that can be implemented

Given the size and scope of the economic impact of the pandemic, there is the need to implement strategies which will help businesses to survive.

Suggested Palliative Actions to be taken by the Government

- The CBN's decision in increasing the cash reserve ratio (CRR) from 22.5% to 27.5% in Jan 2020 should be revisited to provide liquidity for banks so that banks can, in turn, create credit facility to the private sector.
- The Federal Inland Revenue Service (FIRS), as well as State Inland Revenue Services (SIRS), should work on reviewing payments on personal and company income tax for the year 2020, as a result of little or no sales which has affected the income and profits of households and businesses.
- An extension for tax remittance should be granted especially for the worse hit sectors to enable them to recover from the steep decline in demand.

Suggestive Actions to be taken by Businesses

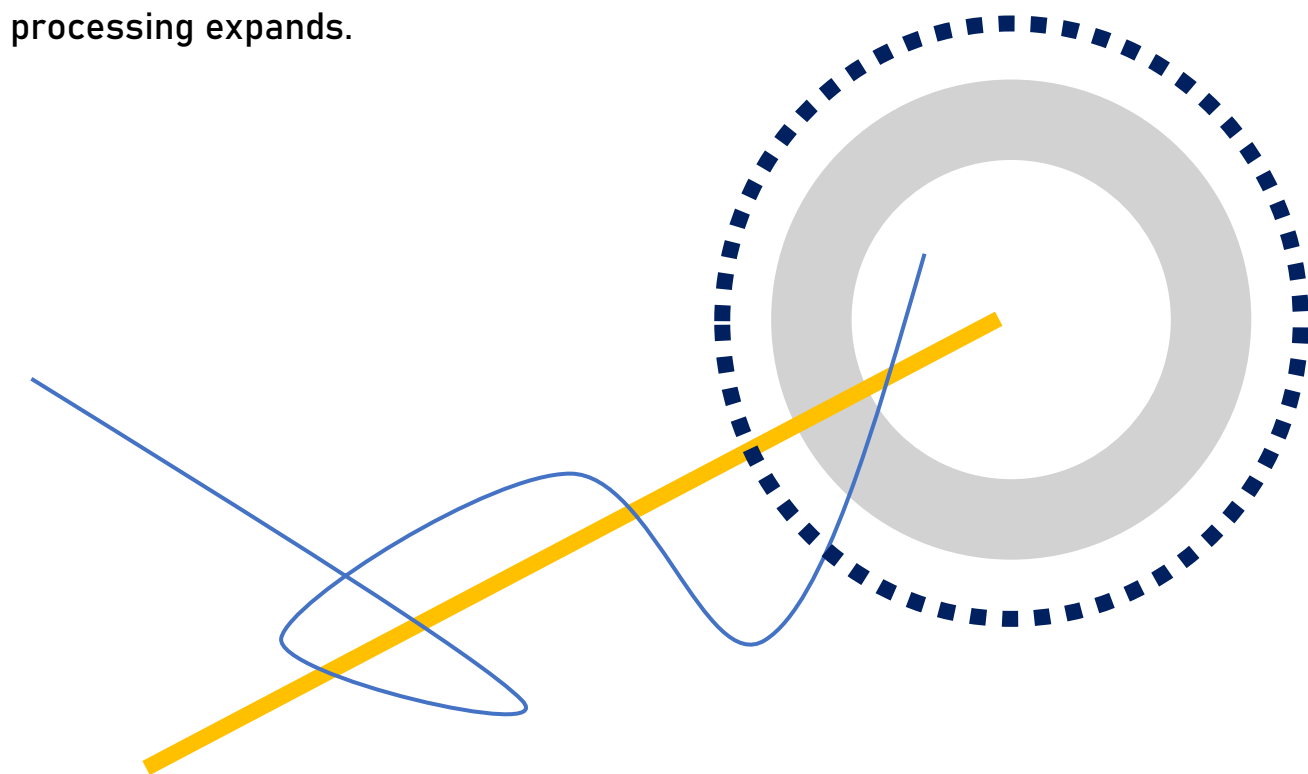
- Embrace the use of technology, remote working, and e-commerce to reduce human contacts.
- Adopt the effective use of social media marketing, campaign and advertisements for products and services.
- Pursue operational and cost efficiency strategies
- Study the global trend of the industry and design strategic plans to minimize vulnerability to external shocks.

Macroeconomic Performance and Outlook

Although Q1 2020 started on a positive note, we expect to see a contraction in the GDP (in line with the Global economy) for the quarter (Q1 2020), due to the swift and drastic impact of the COVID 19 on the country's economy which resulted in trade restrictions. In addition, as the world economy is not likely to recover before Q4 2020, we expect that the effect of the pandemic will be sustained for even longer in sub-Saharan Africa and particularly in Nigeria due to the significant decline in domestic oil production and oil prices.

However, we expect that some sectors will be resilient and not be significantly impacted by the COVID-19 pandemic, particularly the pharmaceutical sector and those in the manufacturing industry producing essential products with locally sourced materials. We also see this period as an opportunity to build local capacity for a lot of essentials that were initially being acquired with foreign currency.

Lastly, we expect the country's reliance on oil revenue to be further reduced as oil prices drop and capacity for local manufacturing and Agric processing expands.



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