

2021 MACRO ECONOMIC OUTLOOK



globalmarket@parthianpartnersng.com
info@parthianpartnersng.com

Outline

1. 2020 Recap

- Nigeria economic events
- Global events
- Nigeria Macroeconomic environment
- Nigeria Social events

2. 2021 Outlook

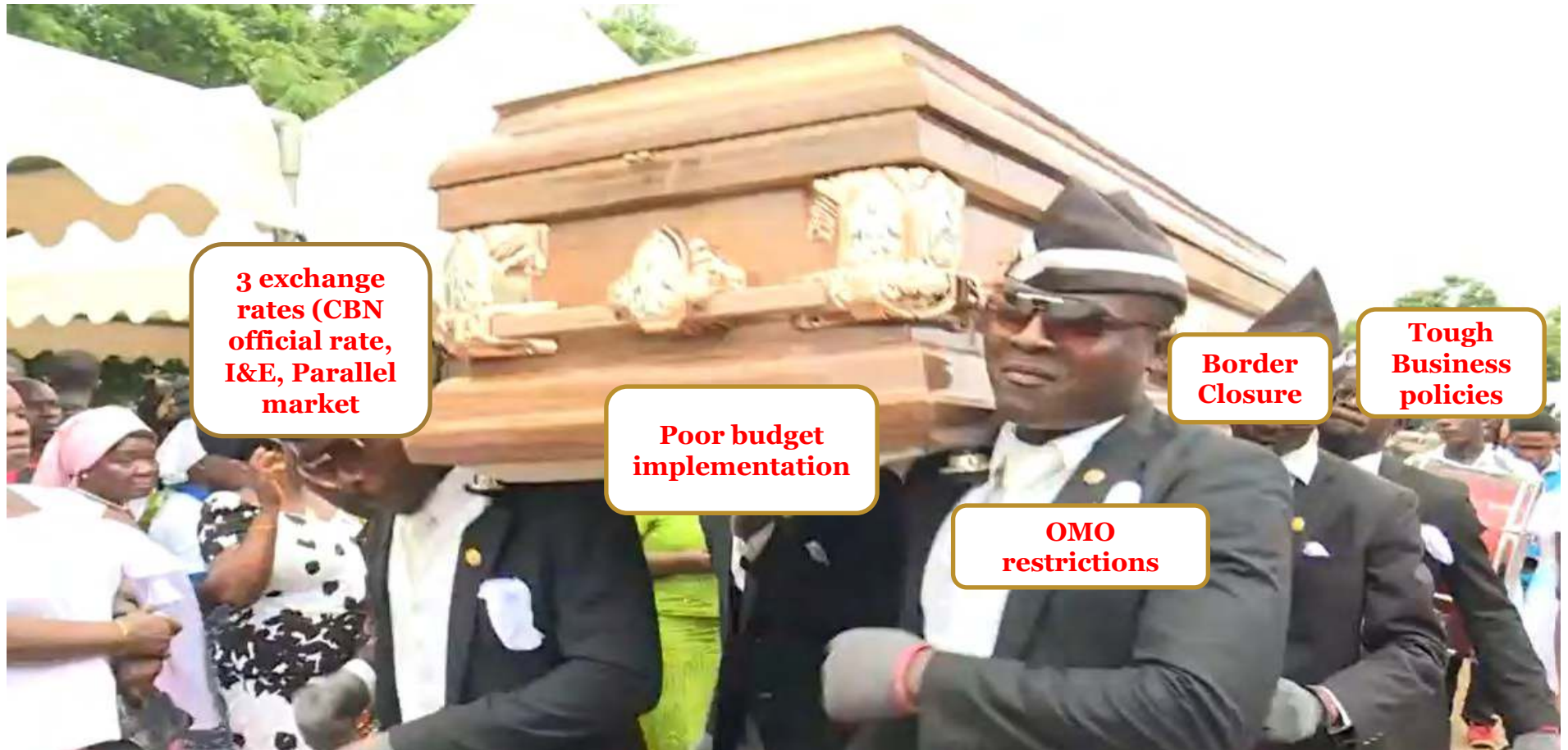
- Global
- Nigeria

2020 RECAP



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2019: Where it all began



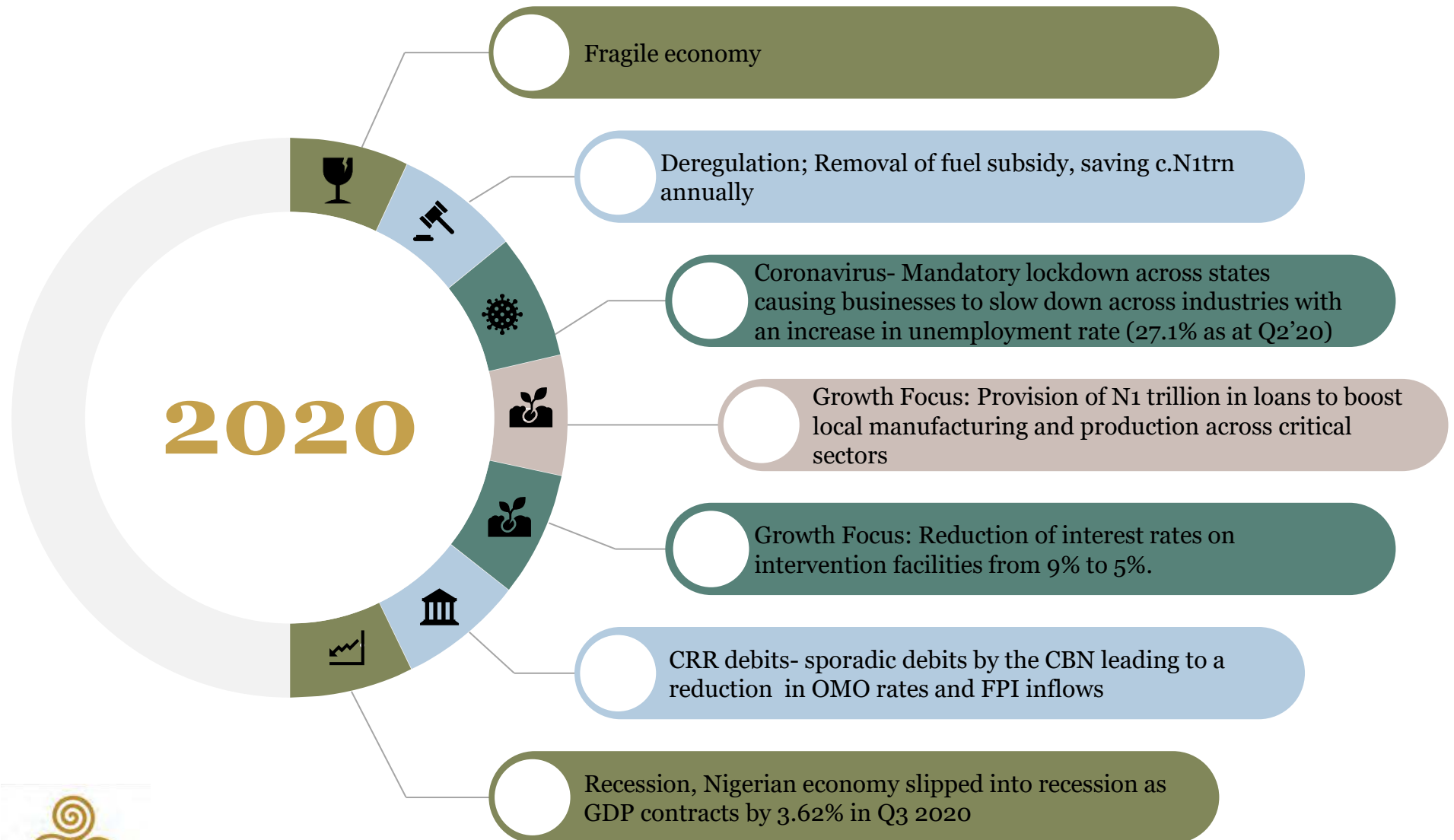
The CBN and the FG implemented policies in 2019 that set the tone for an 'eventful' 2020

2020: Compounded by Coronavirus



COVID-19 served as a catalyst to drive Nigeria towards an inevitable situation

Nigeria 2020: Economic events



Nigeria 2020: Economic events...contd.



2020 budget revision to N10.81tn
from N10.59tn



\$5.414bn raised from
concessional sources –
International Monetary Fund,
World bank, African Development
Bank, Islamic Development Bank



c.N19.53trn total gross credit as at
13th Nov 2020 – loans mainly to
the Manufacturing, General
Commerce, Agric and Forestry,
Construction and ICT



N3.5trn stimulus package
disbursed to fight the effects of
the pandemic



Double postponement of
implementation of new electricity
tariffs to Q1'21 from Oct, and
previously from April



Outstanding Promissory note
balance at cN1.019trn at Nov 30,
2019; c.N290bn issued in 2020



Monetary Policy Rate (MPR)
reduced to 11.50%
Asymmetric corridor lowered
from +200/-500 bps to +100/-
700 bps around the MPR



Over N5.7trn raised locally via
NTBs and Bonds;



Introduction of Special
Bills by the CBN – first
issuance 0.5% 90-day
Promissory Notes

Global 2020

- US-Iran tension in January following the missile attacks on two U.S./Iraqi military bases housing U.S. soldiers by Iran in retaliation for the killing of Soleimani; a Ukrainian airplane was shot down during the crisis
- Outbreak of Coronavirus which has claimed over 1.8m lives worldwide with over 64m cases.
- Lockdowns in almost all economies to curb the spread of the virus; aviation and hospitality industry adversely affected
- Oil price war between Saudi Arabia and Russia; oil price dropped into negative territory briefly in April
- Rate cuts and quantitative easing contributed to record stimuli initiated by governments and central banks around the world to support their economies in the wake of covid-19
- Gold broke \$1800/oz in the search for safe-haven assets and closed the year at \$1894/oz
- Joe Biden elected as the new US President and Kamala Harris as the first female Vice president
- Development and administration of the new coronavirus vaccines

Nigeria 2020: Expectations vs Reality

EXPECTATION

REALITY

Decrease in economic growth expected



Nigerian economy slips into recession as GDP contracts by **3.62%** in Q3 2020

FGN policies of spurring growth/financing the real sector



Provision of N1 trillion in loans to boost local manufacturing and production across critical sectors; reduction of interest rates on intervention facilities from 9% to 5%.

The Apex Banker 'will consider' a devaluation if:
- Reserves drop to between \$25-30bn
- Crude oil price drops to between \$45-50/barrel



The CBN further devalued the Naira-Dollar to N390/\$ in November 2020, from N385/\$1 announced in August 2020 as it sought to meet IMF's request for a unification of rates

Bond yields expected to fall below double-digit levels; negative real returns



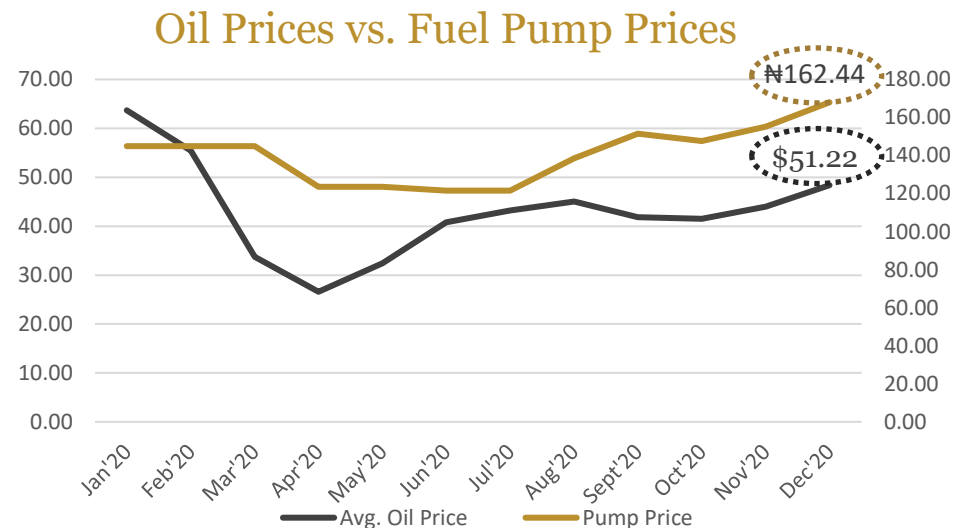
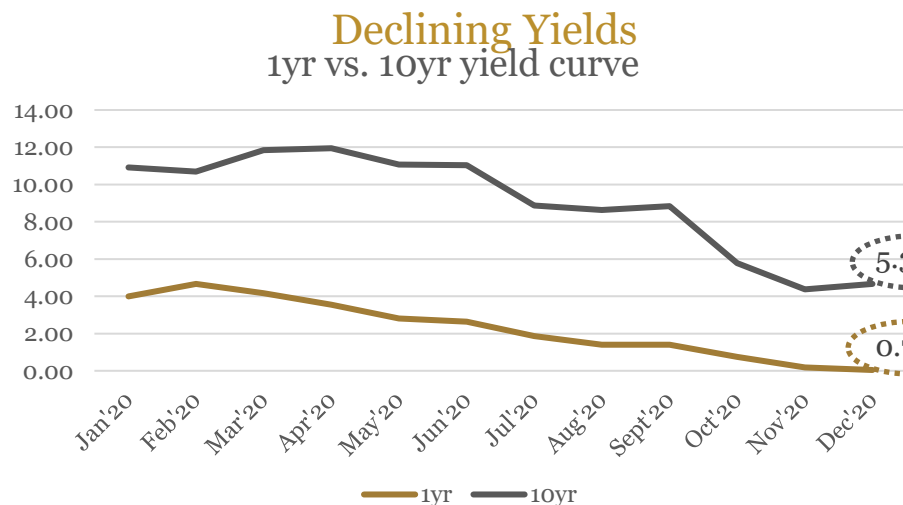
Decline across the curve with the 30-yr benchmark bond dropping to 6.63% in Nov (from 14% in Dec'19); negative real returns on FGN securities as inflation trended north

NTB: Expected to decline significantly, as low as 1%, as demand exceeds supply
OMO: Should remain high at current levels; react to changes in crude oil prices

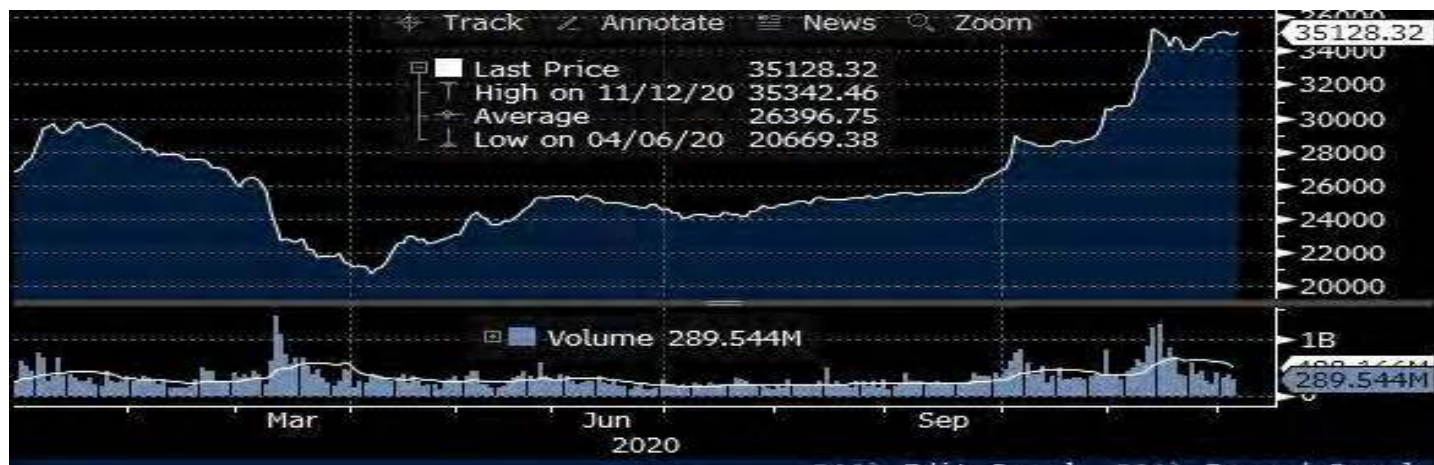


Sustained crash in domestic stop rates – 364-day TBills fell to 0.15% in November 2020 (from 5.50% in December 2019)

Nigeria 2020: Macroeconomic Environment

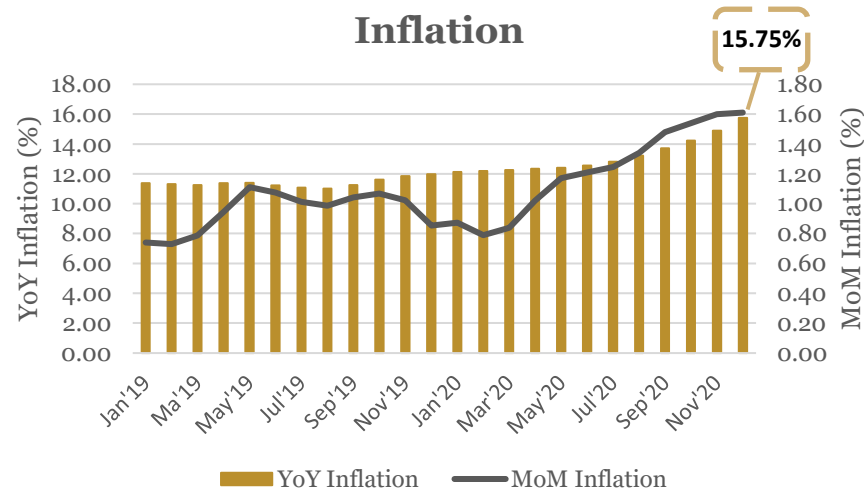


NSE All Share Index

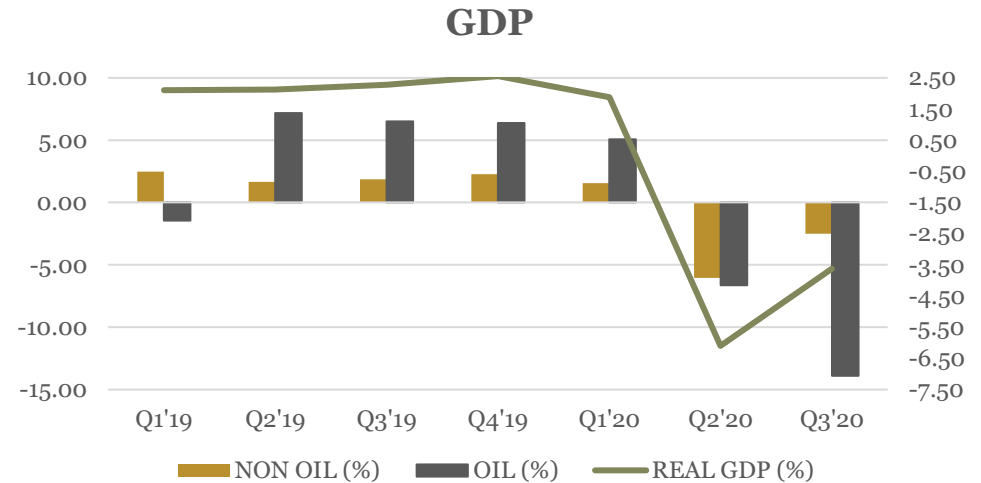


Nigeria 2020: Macroeconomic Environment...contd

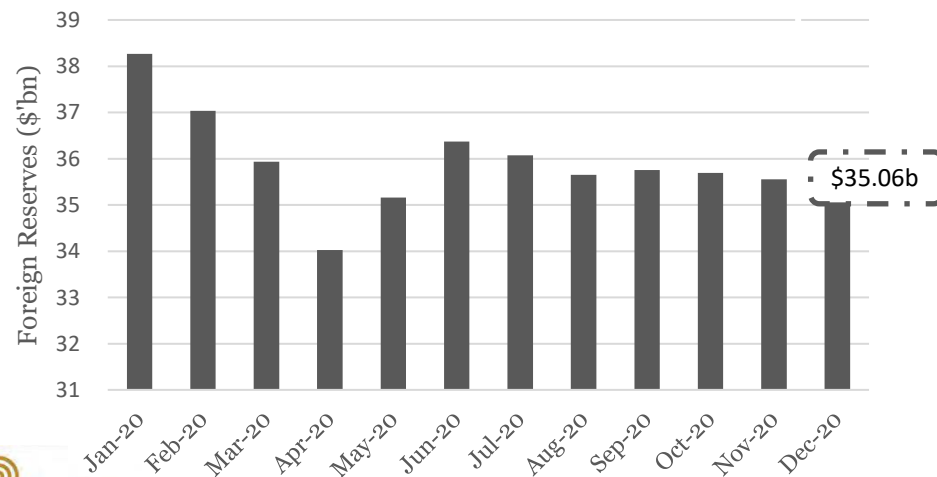
Rising food prices and inflation



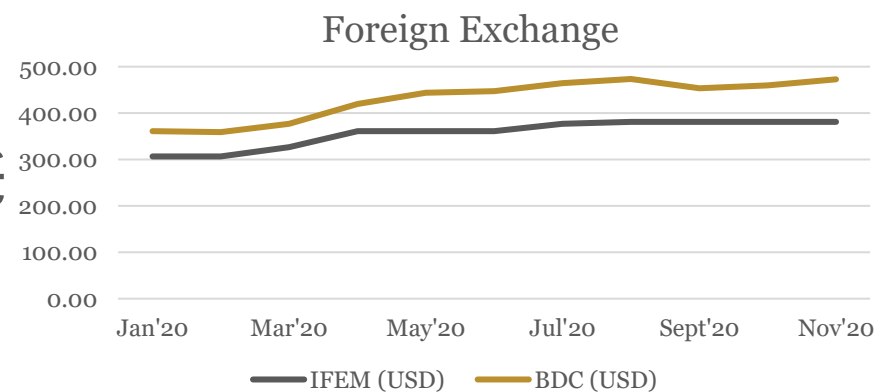
GDP Growth: -3.62% Q3'20



Monthly Avg. Foreign Reserve

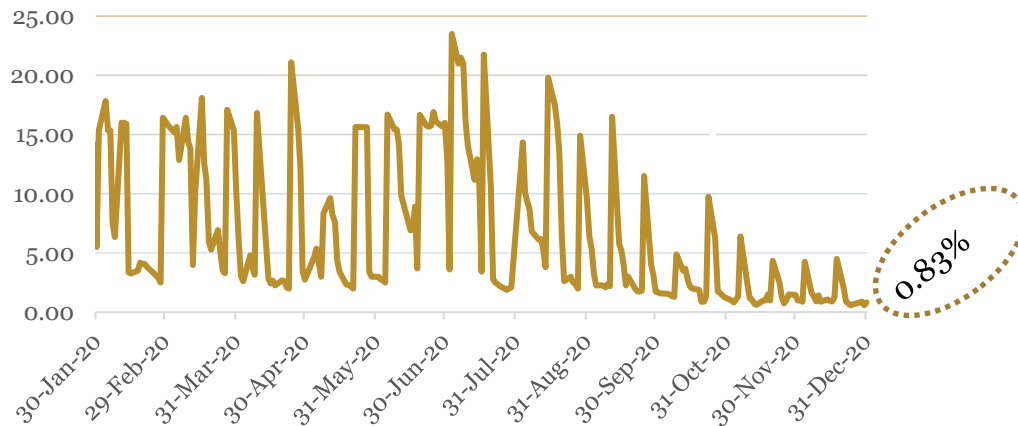


Increasing FX Prices

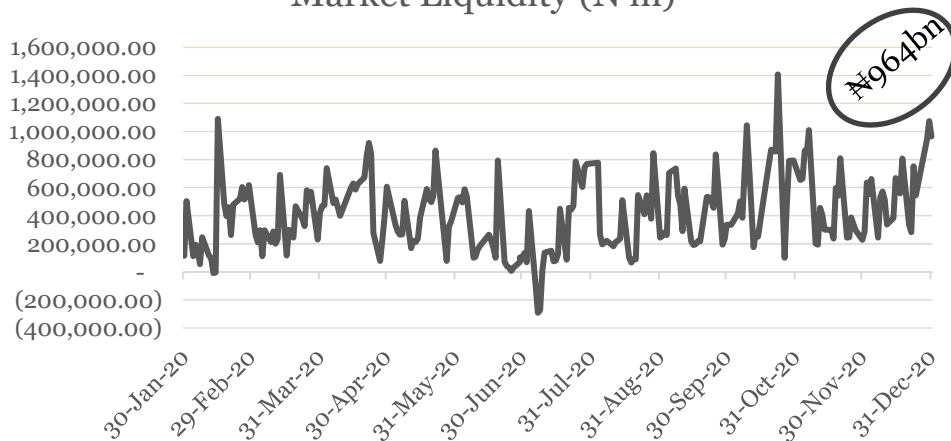


Nigeria 2020: Banking and Financial Markets

Interbank O/N Rates



Market Liquidity (N'm)



Insurance Industry

- Recapitalization process extended and segmented into two phases:

- 50% of the Minimum Paid-Up Capital for Insurance and 60% for Reinsurance shall be met by 31st Dec 2020
- Insurance Companies are required to fully comply with the approved Minimum Paid-Up Capital not later than 30th Sep 2021.

Conversations with our clients in the insurance business revealed that there is a concerted move to get NAICOM to extend the deadline

Pension Fund Administrators

- Transfer of RSA accounts between PFAs now allowed, once a year

Based on our conversations with our PFA clients, there has not been a significant impact of this development on the aggregate size of clients' portfolios, due to bottlenecks involved in the process.

Nigeria 2020: Ease of Doing Business

The federal government in 2020 amended and passed a couple laws to make doing business in Nigeria easier for MSMEs.

Worthy of note is the CAMA 2020 and BOFIA 2020:

BOFIA 2020

The Banks and Other Financial Institutions Act 2020 was passed to repeal the extant act. Here are some highlights:

Penalties were revised upwards to accommodate inflation and devaluation

The CBN may require any bank that has a holding company, a subsidiary, or both, to calculate and maintain minimum capital ratios on a consolidated basis

Banks are required to display information at their offices and on their websites including FX rates, copies of certificates of incorporation, and an abridged version of last audited accounts

CAMA 2020

CAMA had its first comprehensive update in 30 years aimed at:

- reducing the compliance burden of small and medium enterprises (SMEs);
- enhance transparency and stakeholders' engagement in corporate vehicles; and
- promote a more friendly business climate

Hitch free company re-registration process which allows smooth changing their forms from private to public; from limited to unlimited or limited by guarantee, or vice versa

The Act has introduced provisions permitting private companies to provide financial assistance for acquisition of their own shares upon meeting certain conditions

Establishment of a framework for handling insolvency issues as well as the relaxation of compliance requirements for small companies

Nigeria 2020: Social Events

More than ever, social events as seen below proved to have the potential to impact significantly on the economic and financial health of the Nigerian economy.



Increased insecurity

- Farmers insecurity / herdsman clashes
- Increased robbery cases resulting from the lockdown



The #EndSARS Protest

- Nigerian youths set out to protest police brutality by the Nigerian police
- This is in line with a growing global trend of citizens speaking up against police brutality



Improved mental health awareness

- Staying at home as a result of the lockdown caused discomfort, as a lot of adjustment was required to people's routine
- Advocates saw to improving awareness of mental health to help people cope with the challenges



Improved sense of humanity

- The challenges staying at home during the lockdown led Nigerians to appreciate better the importance of each other's presence in our lives

Eurobond Markets 2020

- Outbreak of Covid-19 raised macroeconomic risks in SSA countries
- Oil Price crash in April caused bond yields to soar with the Nig 2049 bond hitting 15%
- Hesitance by most SSA's to raise international debt considering the prevailing fiscal pressures and high-risk premium
- Postponement of Nigeria's planned issuance due to current high yields
- Liquidity crunch witnessed in Zambia resulting in a default



2021 OUTLOOK



Global Outlook

Rebound of the US economy will be hinged majorly on number of new Covid-19 cases, labor market recovery, amount and timing of government stimulus, and any volatility following the presidential elections. Rates are expected to remain low to spur growth

Optimism regarding a growth rebound in the EU will depend largely on the successful vaccinations in the regions as any new series of government restrictions on the supply side, or a loss of confidence and jobs on the demand side, could weaken any potential recovery

China - Asian trade relations uncertain as we await trade policy of the new US President

Oil demand expected to slowly rebound as economies fully reopen and tourism increases. OPEC projecting demand to rise by 6.54mbpd while production has been cut to 5.8mbpd for Q1'21. Oil price expected to average \$53 in 2021-EIA

Rebound expected in EMDE's following the pandemic induced contraction; widening U.S. current account deficits, low U.S. real interest rates, a weaker dollar, and accommodative macroeconomic policies expected to be major contributors

Global growth expected to rebound in 2021 with recovery gaining strength in H2. World Bank forecasts a 5.4% growth for the year

2021 Fiscal Outlook: Budget

HIGHLIGHTS (N'Bn)	2021 Approved	2020 Revised	% Change
Aggregate Revenue	7,880	5,835	35.05%
Oil Revenue	2,011	1,014	98.37%
Non-Oil Revenue	1,489	1,625	-8.37%
Aggregate Expenditure	13,080	9,974	31.15%
Statutory Transfers (inlc. Capex)	484.49	428.03	13.19%
Recurrent Non-Debt	5,650	4,634	21.93%
Debt Service	3,124	2,952	5.84%
Sinking fund	220	272.9	-19.38%
Capital Expenditure	3,604	1,960	83.87%
Capex % of total expenditure	27.55%	19.65%	40.20%
Budget Deficit	-5,200	-4,976	4.51%

Key Assumptions		
	2021	2020
Oil Price	\$40/barrel	\$28/barrel
Oil production	1.86mbpd	1.80mbpd
Exchange Rate	N379/\$1	N360/\$1

Deficit Financing Plan

- Borrow from domestic (N2.14tn) and foreign sources (N2.14tn) , including multilateral and bilateral finance organizations (N709.69bn)
 - Privatization proceeds (N205.15bn)
-
- Oil production projection is well below actual of 2020, hence, unrealistic
 - Expectation of a wider than projected deficit based on the above

2021 Fiscal Outlook – Impact of new policies

AFCFTA



- Boost in intra-African trade expected on the back of possible reduction/elimination of tariffs on trade in goods and services.
- Export structure expected to improve to aid cross border trading
- Possible increase in Nigerian Foreign Reserves, reducing threat on the Nigerian currency
- Spur economic growth through employment creation especially in the Agriculture sector and industrial goods sector.

Finance Bill



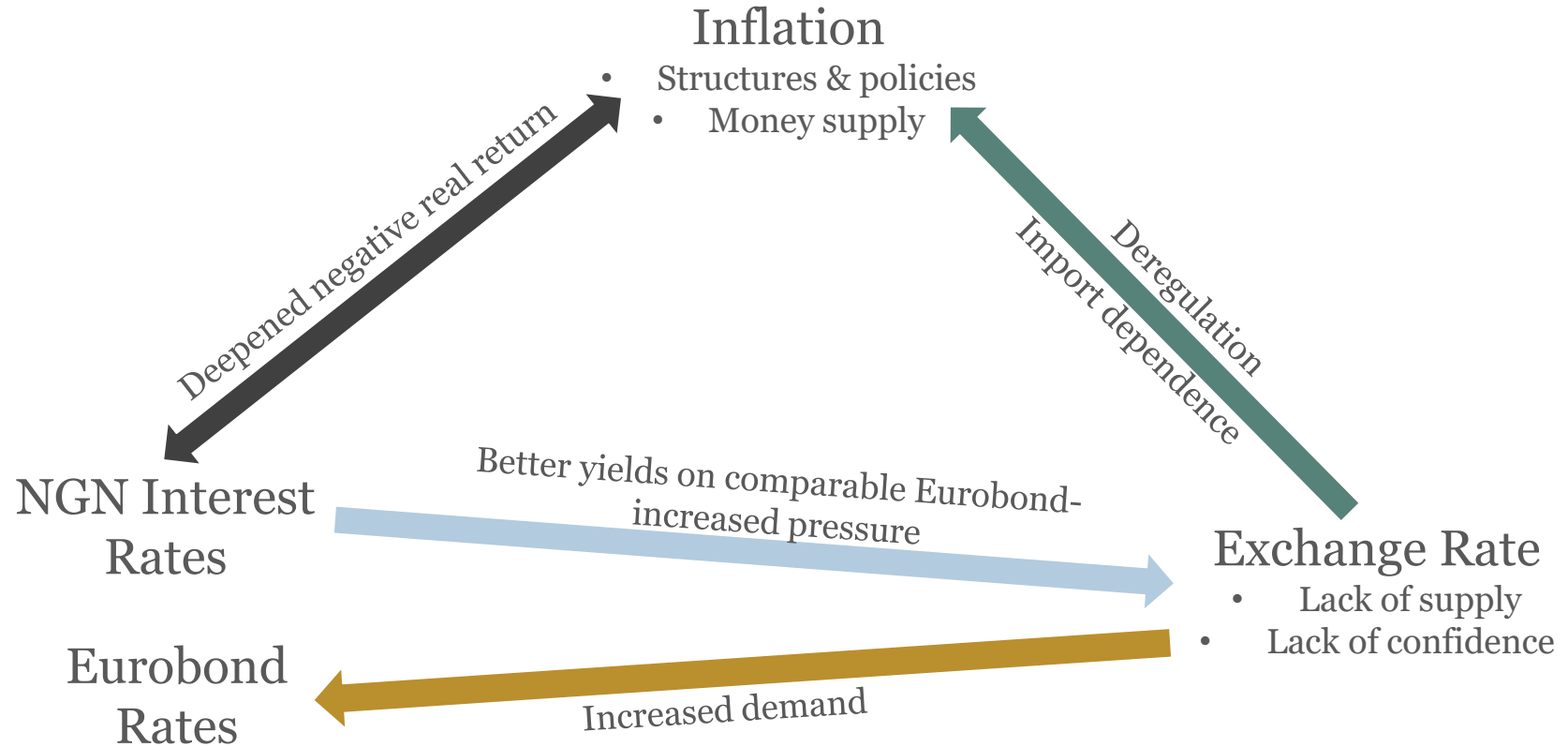
- The Finance Bill introduces changes to the seven different tax laws, many of which are expected to ensure tax reliefs and ease of paying taxes especially for small businesses.
- Some of the amendments include -
 - A small or medium company engaged in primary agricultural production may be granted pioneer status for an initial period of 4 years and an additional 2 years (making a total of 6 years).
 - Exemption of low-income earners earning minimum wage or less from personal income tax.
 - Minimum tax for companies in respect of returns for years of assessments due between 1st Jan 2020 and 31st Dec 2021 has been reduced from 0.5% to 0.25% of gross turnover less franked investment income.
 - Goods liable to excise duties have been expanded to include telecommunication services provided in Nigeria as may be prescribed in the law or an Order issued by the President.
 - Reduction of import duty on Tractors from 35% to 5%; Mass transit vehicles for transport of more than 10 persons and Trucks from 35% to 10%, and reduction of import levy on Cars from 30% to 5%.

Macro Outlook – Factors affecting the economy

Controllable factors	Grey Areas	Uncontrollable factors
Fiscal policy and spending <ul style="list-style-type: none"> Government spending Recurrent expenses e.g. salary Public-private partnerships for capital expenditure Ease of doing business Taxes 	Black market exchange rate	Oil price
Monetary policy <ul style="list-style-type: none"> Liquidity 	Social unrest	Oil sale
Official FX rate	Inflation	Oil production
Local production		Fuel pump price
Insecurity		Poverty/hunger

Direction of Interest Rates

...The Conundrum



- Slow pace of growth expected if inflation continues to exceed interest rates
- There needs to be an equilibrium inflation rate that balances out all factors

The case for higher interest rate

Factor	Direction of Interest rate	Comment	Probability of rate moving in the highlighted direction
Real Return	↑	It is believed that interest rate should be reviewed upwards to encourage positive real return given how high inflation rate is compared to rates	Low
Exchange rate pressure	↑	Increased rates will attract offshore investors, increasing supply and reducing pressure on FX	Low
Cost of borrowing	↓	Debt servicing represents 30% of the 2021 budget and was c.70% of the 2020 revenue. This is unsustainable	High
Growth drive	↓	The federal government and CBN have been very vocal about spurring growth by lowering rates to encourage real sector borrowing	High
Lacking investor confidence	↔	Taking interest rates higher will not necessarily boost foreign investor confidence due to the bottlenecks experienced in accessing dollars to repatriate investment proceeds and a general lack of trust in the Apex bank	Low

The case for higher interest rate

In conclusion, the case for low interest rates appear stronger

- A spike to pre-OMO restriction levels i.e., 15-16% on the long end, appears unlikely except if:
 - CBN takes OMO rates to double digits
 - DMO oversells, and
 - Offshore sells off
- As shown on the previous slide, the case for points 1 and 2 are not strong given :
 - Unconventional borrowing will be mostly adopted e.g., PNs over NTBs/OMOs, use of dormant account balances and unclaimed dividends, etc.
 - The CBN has interest rates in control as they can tell banks where to bid at the OMO auction
 - A possible devaluation also frees up more Naira cash from dollar proceeds for budget funding

Where should you be investing

The rules about diversification still stand...

Opportunities will pop up
– Align with industries
that have government
focus

There will be Public-private
partnerships to reduce
pressure on budget funding

Pressure on the budget may
weigh more on the decision to
increase interest rates

Top 5 funding sectors in 2021

- Works and housing N404.64bn (44 road projects financed by sukuk issuance of N162.56bn in 2020)
 - Transport N256.09bn (\$220m released for railway projects in March 2020)
 - Education N197.41
 - Health N152.77bn
 - Power N127.67bn
-

- Debt issuances on the back of these partnerships and opportunities to invest in these issuances
-

- Eurobond Issuance
- Unconventional means of raising funds
- More issuance of promissory notes

Eurobonds Market 2021



- We expect demand from the market due to continued easing stance and pumping of liquidity into the financial market
- Resumption of economic activities on the back of coronavirus vaccination should boost oil demand, another positive for SSA Eurobonds
- We expect countries to take advantage of the sustained demand, with additional supply expected from some SSA countries that have disclosed plans to tap into the Eurobond market this year:
 - Ghana plans to issue at least \$3bn of Eurobonds in Q1'21
 - Expected issuance of c.\$5.6bn by the Nigerian government
 - Kenya as well (size undisclosed yet) pending agreement with IMF to implement fiscal adjustments to stabilize debt level
- Nigeria's Eurobonds seem overpriced relative to other SSA Eurobonds according to some international traders
 - The attraction remains though as the Nigerian Eurobond market is very liquid

Thank You