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Nigeria Economic Outlook

August 2023

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Outline

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- Economic Context and Outlook
- Implications and Responses

Macroeconomic dashboard

GDP Growth Rate

2.3%

Period	Q-o-Q% ▲	Previous
Q1 2023	**-34.3%**	3.5%

Exchange Rate- Official

₦768.6/$

Period	M-o-M% ▲	Previous
July 27 2023	**0.7%**	₦763/$

Exchange rate- Parallel

₦873/$

Period	M-o-M% ▲	Previous
July 27 2023	**13.4%**	₦770/$

Monetary Policy Rate

18.75%

Period	M-o-M% ▲	Previous
July 2023	**1.4%**	18.5%

Oil Production

1.3mbpd

Period	M-o-M% ▲	Previous
June 2023	**8.3%**	1.2mbpd

FX Reserves

$35.6bn

Period	M-o-M% ▲	Previous
July 27 2023	**3.8%**	$34.3bn

Market Capitalisation

₦35.6tn

Period	M-o-M% ▲	Previous
July 27 2023	**8.9%**	₦32.7tn

Inflation

22.8%

Period	M-o-M% ▲	Previous
July 2023	**1.8%**	22.4 %

Source: NBS, CBN, NGX, PwC Analysis

NB: The cut off date is as of July 27, 2023

Setting the Context (1/2)

Prices and markets development

- Inflation rose marginally to 23% in June from 22.4% in the previous month fueled by both food (25%) and core inflation rates (20%). The rise was primarily due to the increases in food and transport costs by 2.4% respectively. Though the removal of PMS subsidies in May drove petroleum prices upward by 120% (from ₦238/litre to ₦617 in June), the pass-through effect on inflation was partial. **We expect that the full effect of the deregulation will impact inflation in subsequent months, as the price of PMS will likely continue its upward spiral in the short to medium term**. But more importantly as more upward wage adjustments sustains spending
- Positive investors' sentiments riding on pro-market policies (i.e. the exchange rate liberalisation and PMS subsidy removal by the new administration) drove market capitalisation of the Stock Exchange significantly **by ₦2.8tn or 9.3% to ₦33.2tn in June 2023.**

Regulatory and policy environment

- New bills signed into law include; Electricity Act, Student Loan Act, and the Data Protection Act.
- The **Electricity Act** vests States, companies and individuals with the legal authority to generate, transmit and distribute electricity. If implemented by the States, the Act is expected to minimise the annual economic losses estimated at **$26 billion (₦10 trillion);** and enhance electricity access to the **85 million Nigerians** that lack access to the electricity grid in the various unserved and underserved areas.
- **Nigeria's Student Loan Act** aims to provide interest-free loans to students, thereby enhancing the access and affordability of higher education to prospective and existing students. However, there is a **need to address the eligibility requirements and repayment challenges for the successful execution of the program.**
- **The Data Protection Act** aims to safeguard the privacy rights of individuals by governing how personal information is collected, utilised, and shared. If implemented well, the Act will enhance investors confidence in the country's data regulations may generate over **₦16 billion in data businesses**.

Source: NBS, CBN, NGX, PwC Analysis

Setting the context (2/2)

Consumer and demand

- **Real income still under pressure** as inflation (23% as of June 2023) continues to accelerate and **wages remain static**. However, public sector dialogue on increasing minimum wage, as well as providing palliatives, if well administered, could ease the decline in consumer demand. Some private sector adjustments have been made especially in the banking sector. This will likely pressure employers in other sectors to follow suit. This also has possible implications for the inflationary pressures in the economy.
- However, **input costs (including the 140% price increase in PMS from January to July) will continue to pass through to consumer prices** further worsening the affordability of goods and services in the economy in the medium term.

Fiscal dynamics

- Policy reversal of some taxes e.g. green tax on single-use plastics, 5% telecom service excise, car import and local goods and services excise, **could potentially curb inflationary pressures especially in consumer & industrial products and telecommunication sectors**.
- Tax reform committee set up with terms of reference that include enhancing revenue collection, fiscal responsibility and tax reforms, as well as improving compliance. **Already, discussions or conversations are underway to streamline the number of tax obligations from 52 to 10, to achieve payment efficiency and enhance the ease of doing business.** Furthermore, it is being considered conceptually whether the Federal Inland Revenue Service (FIRS) to change to the Nigeria Revenue Service (NRS) in a bid to harmonise all tax collection activities of the Federal government.
- $800 million World Bank Loan approved by the Senate to provide safety net and mitigation support to the poor and vulnerable segments of the population. The loan will **increase national debt portfolio and deepen debt burden, on account of further currency devaluation.**
- FG to save about 30 to 50% of monthly FAAC allocations*, as part of an Infrastructure Support Fund (ISF) aimed at improving and enhancing the infrastructure growth and development of the States. **However, a debate exists regarding the presence of an appropriate legal framework guiding this action**.

Monetary dynamics

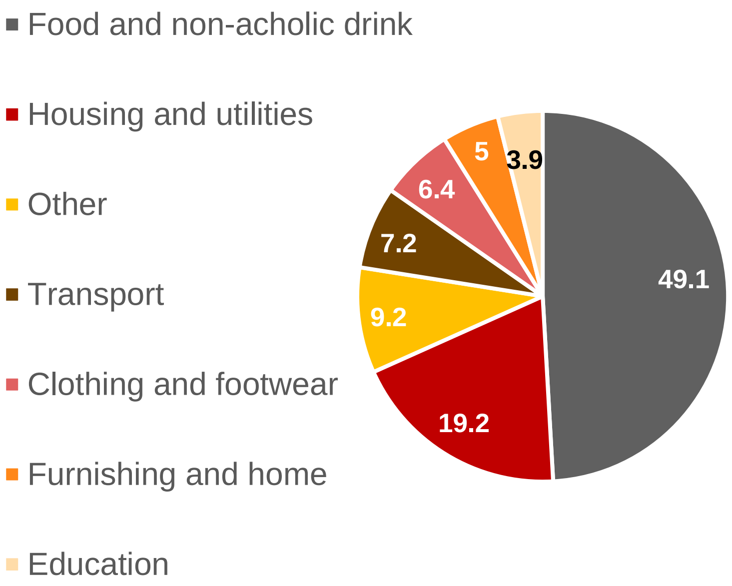
- **Merchant Banks' CRR revised to 10% from 33%** to strengthen the banks' capacity to provide increased financing for infrastructure, real estate, and other extended financing crucial for the growth of the Nigerian economy.
- Journey toward FX unification included streamlining the markets for accessing FX to the singular I&E window. Though this aims to reduce arbitrage and encourage foreign investments in the medium to long-term, the policy has led to the devaluation of the Naira by over 70% since its launch. **The divergence between the official window and the parallel markets is expected to continue in the short term, in the absence of further supporting reforms and policies.**
- Monetary Policy Rate (MPR) increased to 18.75%. **This may likely have negative impact on economic growth, as it impedes headroom for banks to lend to the real and business sector.** Despite the persistent increase in interest rates, inflation rates continue to rise, primarily driven by factors such as an expansion in money supply, currency devaluation, insecurity, lingering effect of the naira redesign policy, among others.

Source: NBS, CBN, PwC Analysis

*** Pertinent to note that the June FAAC allocation of N1.9 trillion was as a result of the artificial FX rate regime that unlocked much needed revenue at the market rates. Furthermore, the FAAC amount also comprised NNPCL interim dividend and 40% of PSC profit share signalling more focus on profit-oriented objectives post-PIA**

Persistently high inflation and low disposable income will continue to weigh heavily on non-discretionary spending.

Average Consumer Expenditure Weight % (2022 estimate)



Cumulative M-o-M Change in Inflation Key Elements Jan-June 2023

Food - 12.8%

Furnishings & Household Equipment Maintenance – 7.8%

Transport – 12.6%

Clothing and footwear – 8.5%

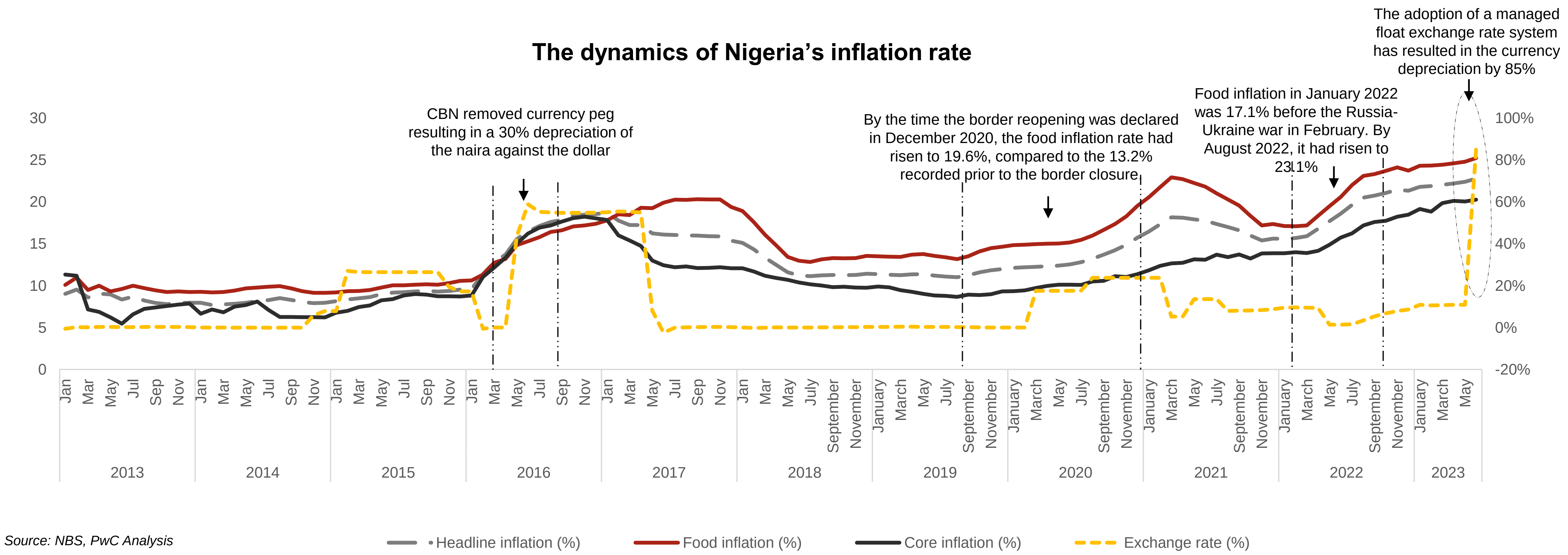
Education – 10.7%

Key Drivers

- Food Inflation rose by 25% in June compared to the previous year, **compounded by insecurity concerns and climate change effects in the food producing regions** of the country.
- Transportation costs also increased by 25% compared to the previous year, on account of the **higher energy prices**.
- **Currency depreciation and structural factors** drove other inflation in key elements such as clothing and footwear, furnishing and home, housing and utilities.

Source: Fitch, NBS, PwC Analysis

The June inflation figures reflected the partial effect of the fuel subsidy removal and the adoption of managed float exchange rate system



Source: NBS, PwC Analysis

Insights

- Although it was anticipated that the elimination of the fuel subsidy and managed float exchange rate system would drive inflation upwards in June, **the increase was less than predicted**.
- The NBS reported that the **inflation data for June might not fully represent the impact due to June numbers only reflecting approximately two weeks of policy impact** on consumer price. The full effect of policy changes will be reflected in subsequent months.

Outlook for August 2023

Rise in regulatory reforms

Rise in inflation and volatility in the FX market in the short to medium-term

Weakening consumer demand in the medium term

Slow but improved prospects for fiscal and monetary dynamics

Key Assumption Drivers

- **Proposed new ministerial cabinet** to drive economic direction and fiscal policy management.
- **Implementation of new tax reforms** to drive revenue generation.
- **Inflation is expected to rise** in the short to medium-term.
- Consumers are **expected to be pressured by higher prices** causing demand to slow down.
- **Wage adjustments unlikely to be adjusted** simultaneously and proportionately.
- **Further cuts in Monetary Policy Rate (MPR) are not expected**.
- The **adoption of a managed float exchange rate is projected to cause volatility**.
- **Possible increase in crude production** due to likely improved security architecture in the oil-producing regions.

Likely Impacts

Growth

- Continued inflationary growth and rise in the cost of living **may slow real economic growth in the medium term**.

Investment

- Economic reforms such as the FX market liberalisation could **gradually attract foreign investments and boost capital inflows in the long-term.** However, in the short-run, investors will likely adopt a wait and see approach. This may be a result of the absence of further reforms to strengthen business and economic fundamentals.
- Rise in inflation will likely reduce the real yields or returns on investment.

Consumer Demand

- Rise in energy, food, transportation and import costs may **dampen consumer spending on non-discretionary items**.

Production

- High FX rates may **drive up production costs and impact negatively on firm performance.**

Impact and implications on businesses

Impact area:	**Revenue Growth Rate** to reduce	**COGS** to increase	**SG&A expenses** to increase	**Finance Cost** to increase
Drivers: (Non-exhaustive)	• **Consumer spending** may be adversely impacted • by the elevated inflation rate **(food 25.3%** and **core inflation 20.3% rates.)** and fuel price **(140% increase** after subsidy removal). • Business revenues may decline in the short-term mainly due to direct impact input costs and reduction in disposable incomes.	• **Naira floating** is expected to drive up the cost of imported raw materials. The naira value since the implementation of the policy has ranged between N472-N771/$ from an average of N463/$ in May before the policy announcement. Though this may have a negative impact, it could provide incentives to corporates to explore local sourcing or backward integration in the medium term.	• **The general rise in prices** due to the removal of subsidy may have a trickle-down effect on the various SG&A expenses such as marketing, logistics, utilities etc**.**	• **The cost of borrowing (Naira)** could remain elevated due to the increase in MPR rate to 18.5% in July 2023 by 25 basis points. • **Finance costs to increase** due to exchange rate losses from higher interest payments incurred on exposure to foreign currency denominated loans. These losses are on account of the currency devaluation.

Source: NBS, NNPL, CBN, PwC Analysis

What should corporate organisations be thinking about?

Optimise customer growth proposition

To achieve customer growth optimisation, corporate organisations should implement the following strategies: adjust pricing and pack architecture using Revenue Growth Management (RGM) analysis to cater to shifting consumer habits, adapt products to accommodate changing demand dynamics by substituting expensive raw materials, leverage post-event analytics for promotion decision-making, renegotiate contracts for better terms, and expand distribution through discounters and online platforms to align with evolving consumer buying patterns.

Review cost across the value chain

To optimise costs across value chains, companies should conduct thorough analyses across the value chain. For overhead costs, they should examine benefits versus pay and consider greater segmentation of reward, implement a hiring freeze, and improve visibility of non-payroll expenses. Streamlining organisation design to eliminate duplication and reprioritising non-core work are also crucial. In brand marketing, a marketing audit should be conducted to enhance cost transparency, and marketing campaigns with high ROI should be prioritised while managing supply issues by reducing promotion frequency without compromising depth. Lastly, in total supply chains, identifying alternative sourcing locations to minimise risk and cost, aligning procurement across business divisions, and optimising spending through global and local deals are essential actions.

Secure talent and improve ways of working

To secure the key talent required to win, CEOs need to explore the following strategies: i.) Realign their Employer Value Proposition with emerging realities. Answer the question: why should key talent want to work with your organization. ii.) Explore alternative resourcing models and ways of work. What legacy policies need to change in response to the needs of the new ways of working (hybrid, cross-border talent etc). iii) Review recognition and reward programmes to compensate differentiated capabilities and performance iv.) Deploy enterprise-wide upskilling to build the capabilities required for the new world of work (digital, data, green skills etc).

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