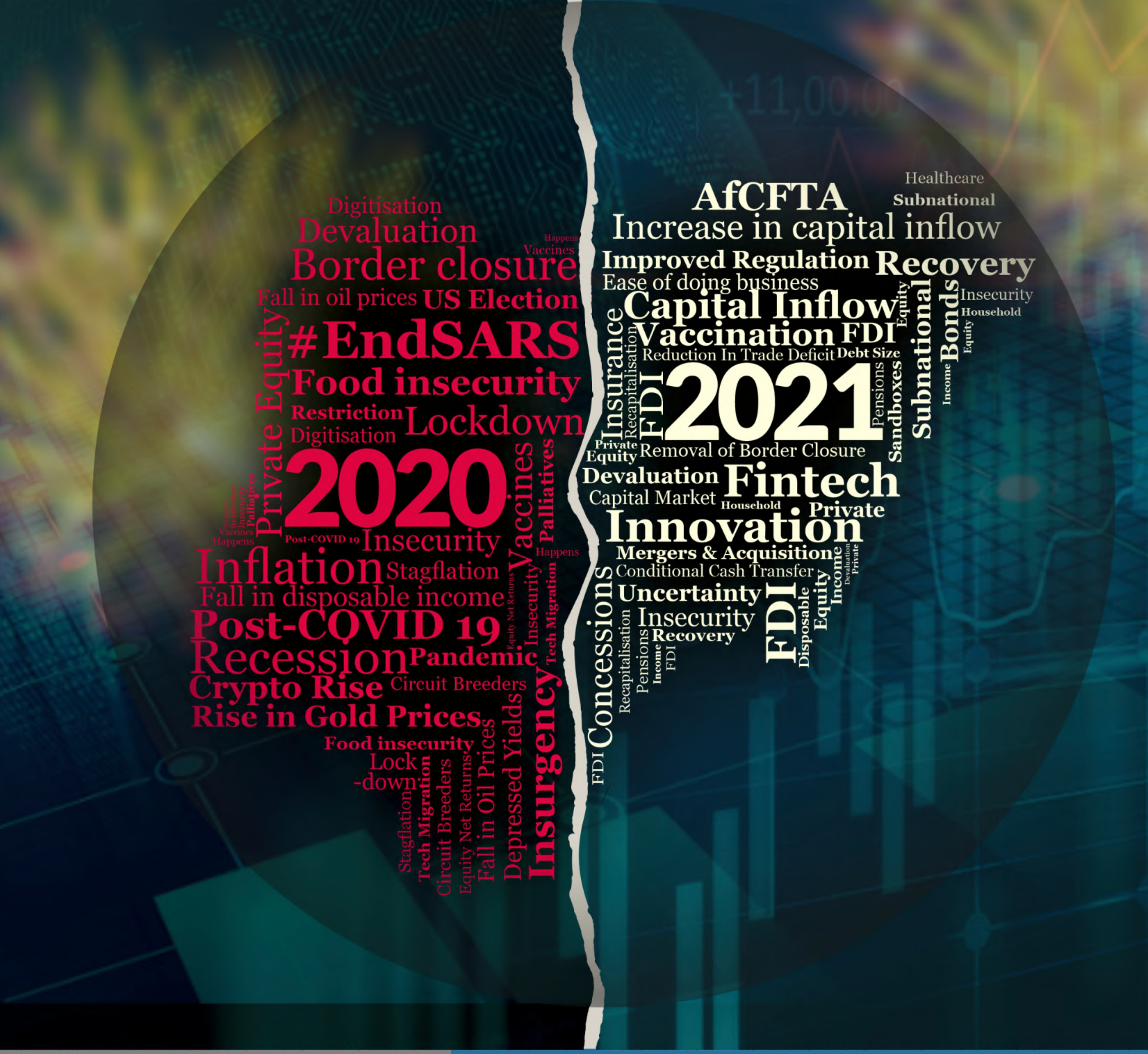

Proshare **Confidential**

Goodbye 2020, Hello 2021; Understanding the Mega Trends of a Crucial Year for an Economy

January 2021

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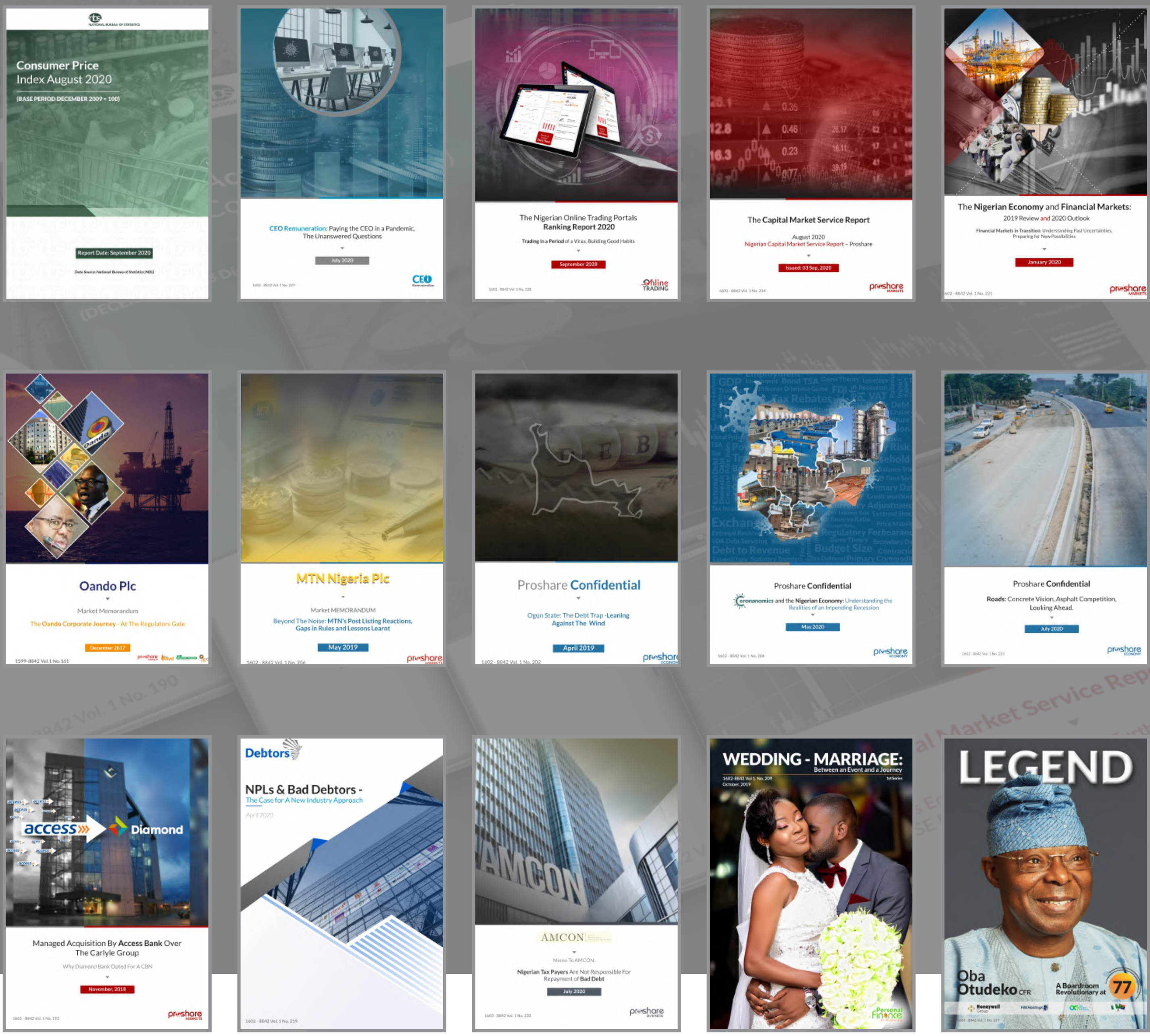

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Executive Summary

Hold on to your dream. Don't let past failures or dire economic forecasts make you a pessimist. Keep your youthful dreams alive and create your own opportunities. ***- Paul Zane Pilzer***

Paul Pilzer may well have been making a pitch to Nigerian youths, as the events of the last twelve months have been disruptive enough to shoot down stars from the clearest of skies. The 2020 coronavirus pandemic was a scorching experience that drilled massive holes into the pockets of governments around the world as citizens queued up at isolation centres to fight off a venomous disease, lacking in empathy.

Hospitals came under strain as health workers and patients caught the bug and death loomed like a Godzilla. Factories closed dust-caked windows, cinemas went silent and airplanes lay like coffins on parade as economies slowly but painfully sank into despair. Nevertheless, with 2020 in the rear-view mirror, and factories gingerly restarting to hum again as airlines and airplanes re-awake, analysts are more optimistic at the beginning of 2021 than they were pessimistic at the end of 2020. Dreams are coming alive and opportunities seem to be re-emerging.

Nigeria in Six Charts

Nigeria's economy went into free fall in Q2 2020 as the coronavirus pandemic worsened and tumbling international oil prices poisoned an already difficult situation. By the end of the second quarter the country's gross domestic product (GDP), a measure of economic output, shrunk by -6.10% before recovering in Q3 2020 by -3.62%. The two-quarters of negative GDP growth nudged the economy into an official recession with job loss rates rising and inflation rate scampering. A few analysts believe that the 2020 economic decline was less severe than would have been the case if the Central Bank of Nigeria (CBN) had not adopted a policy of quantitative easing (QE) and the ministry of finance (MoF) had not permitted a larger-than-expected fiscal deficit. Subsequent information suggests that the CBN had put in the palms of the fiscal authorities a shimmering N2.38trn credit lifeline by its ways and means mechanism, hence leaving the finance authorities with a massive future fiscal funding gap of over N2trn.

The country's macroeconomic balance can be viewed in six charts and a theory.

GDP- Understanding the Chicken Run

All Reports are now available for download on www.proshareng.comNigeria's **GDP** has had an interesting run as it has dipped and swerved from optimistic growth to scary depression, back to growth, and then on to depression in 2020. Before 2015, the economy's growth engine had purred at a nice pace of slightly over +6% as it drove smoothly along an upward trajectory from an average of +6.23% in 2014 but slipped to an average of +3.2% in 2015 and slammed the brakes as it skidded into a recession between 2016 and Q1 2017.

GDP fell from -0.67 in Q1 2016 to -1.49% in Q2, -2.34% in Q3, and -1.73% in Q4 by Q1 2017 **GDP** saw a slight but still negative recovery of -0.91%. As the global recession passed by in Q2 2017 and **GDP** growth ramped up to +0.72%, the economy appeared to be on the mend even though the population growth rate was plodding ahead at a disturbing +2.6% per annum.

The harsh times of 2016 left the jobless rate up in double digits, while domestic consumption stumbled and manufacturers saw net sales slide, the purchasing manager's index (PMI) equally took a knock. The **GDP** growth reversal in 2017 put smiles on manufacturers' faces as output rose as the jobless rate started to fall with **GDP** growth rising from +2.11% in Q4 2017 to +1.95% in Q1 2018 and +2.38% in Q4 2018. In between Q1 and Q4 2018, the growth rate fell to +1.5% in Q2 and +1.81% in Q3.

Manufacturers and workers were optimistic that 2019 would prove better than the previous year, 2020, and they were right. **GDP** rose by +2.1% in Q1 2019, +2.12% in Q2, +2.28% in Q3 and +2.55% in Q4. The first quarter of 2020 saw **GDP** growth rate climb by +1.87% before the coronavirus outbreak led to a reversal with Q2 2020 witnessing a major contraction as **GDP** growth slid by -6.10% before retracing its steps in Q3 2020 with the growth rate slowing less rapidly by -3.62%.

Nigeria's **GDP** chicken run over the last seven years has reflected uncontrollable external factors and perfectly controllable policy choices. The country's fiscal and monetary policies have often been out of alignment and the route to desired economic prosperity has been littered with hope rather than logic, ethnic bias rather than a competitive advantage, and favouritism rather than competence.

Inflation Rate - When What is Real Begins to Matter

Nigeria's latest inflation figures for December 2020 showed that **headline inflation** grew by +15.75% and food inflation spiked at +19.56%, an indication that domestic real asset values were being pulverized as the country's poverty index hit new highs.

The rise in domestic prices has been unnerving in the last two years as **headline inflation** has steadily increased without let. In January 2019 inflation rate was just over +11% but by October the rate had risen to +11.61% and by year-end December 2019 inflation rate had skimmed just under +12% to +11.98%.

With COVID-19 fears kicking-in by Q1 2020, the inflation rate rose more sharply as supply chain links were decoupled and factories' gates closed. The country's inflation rate in January 2020 was +12.13% by March it had risen to +12.26%, in June 2020 the domestic inflation rate had scrambled up by a further +12.56%. By the end of Q3 2020, the domestic price level had again increased by +13.71%. The beginning of Q4 2020 saw the inflation rate leap further by +14.23% as the delayed impact of earlier input supply disruptions, farmgate security challenges, and land border closure combined to knock the wind out of the economy's sail.

This explains why the inflation rate still rose in December 2020 by +15.75%, a throwback to November 2017. The continuous rise in the inflation rate in 2020 hurt the value of financial assets as real yields took a beating as inflation-adjusted returns became negative leading to several investors leaping out of fixed income securities and seeking solace in the equities market. **The NSE All Shares Index (ASI)** went up +50.03% year-to-date (YTD) at the end of 2020, making it the best performing market in Africa (*see the section on the African equities market in this report*).

With the inflation rate at +15.75%, it would take only four years and three months for the value of every naira asset to be worth roughly half of its present value, if the double-digit rate persists. If the monetary authorities are to encourage savings in the country (a critical factor in wriggling away from slow medium-term growth), real rates of return on deposits must go up by between 10% and 12%, otherwise, owners of idle cash balances would probably search for near-liquid assets that track inflation much better.

Good investors search for value, but great investors search for inflation-proofed value, a growing number of Nigerian investors are moving from good to great.

Debt - Staying Catholic, Or Perhaps Not?

Nigeria's domestic and foreign debt numbers have easily galloped in the last six years. Nigeria's combined domestic and foreign debt numbers rose from N12.6trn in 2015 to N17.4trn in 2016, at the beginning of a short-cycle recession. The debt figure continued to rise with a recovery in **GDP** growth numbers in 2017 as Nigeria's total debt stock climbed to N21.7trn.

The low-growth recovery of GDP between 2017 and 2018 was unable to stop the viral growth of debt as Nigeria's debt stock has continued to rise, leapfrogging from N24.4trn in 2018 to N27.1trn in 2019. In Q3 2020 the total national debt had risen to N32.2trn.

The five-year compound annual growth rate (CAGR) of the nation's total debt was 21.1% as of 2019, but the rate could be closer to +16% if 2020 debt numbers are taken into consideration and a base rate adjustment is made. For example, if the H1 figure of N31.0trn were to be used to calculate CAGR for full-year 2020 and the base rate was shifted to N17.4trn for 2016, the new five-year growth rate would be +15.62%. If the Q3 2020 figure of N32.22trn is applied the CAGR would be +16.65%.

The growth rate of debt is higher than the growth rate of inflation, thereby worsening the plight of taxpayers. Taxpayers would be slammed with an 'inflation tax' as they would also be forced to pay for higher fiscal borrowings. The double whammy of abstinence from Catholic prudence and cheerful fiscal spending leaves no heavenly solace for the innocent. Taxpayers will have to hunker down and grit their teeth in 2021 as they pay for public sector exuberance.

PMI- Making Manufacturers Cry

It was tearful. Nigeria's manufacturing sector in 2020 was slam-dunked. The COVID-19 pandemic cut supply lines, deferred production inputs, and primed the pump for expensive inventories. This translated to higher costs (debt service does not sleep during pandemics), lower or non-existent operating cash flow, and rising cost-of-carry.

The country's purchasing managers' index (PMI) seesawed between 57.1% and 60.8% in 2019 but slumped between 41.4% and 51.1% in 2020. In June 2020, the Index collapsed to 41.4% amid the coronavirus economic lockdowns but bounced back mildly in July to 44.9% before rising a notch to 46.9% in September and then skipped to 49.4% in October, 50.2% in November, and dropped to 49.6% in December 2020. The gradual rise in the PMI towards the end of the year, according to analysts, reflects a slow but noticeable turnaround in the country's economic fortune.

Nigeria's manufacturing sector is expected to chug along modestly in 2021 but a lot depends on how quickly the COVID-19 pandemic is resolved and how fast domestic supply rigidities are addressed.

Unemployment - Hard Times, and Swollen Feet

Nigeria's ***unemployment*** rate has once been described as a mystery locked inside a box, as the bureau of statistics has done a marvellous job of keeping up with macroeconomic data on every other headline macroeconomic indices except the national unemployment rate. Indeed, inquiries concerning the Q4 2018 to Q1 2020 ***unemployment*** numbers revealed that the federal government had been shy in spending money on collating the unemployment figures for the missing periods for reasons that are yet to be explained.

The unemployment rate for Q2 2020, however, stood at 27.1% up from 23.1% in Q3 2018. The reason why the rising unemployment rate is such a major concern in Nigeria is that it is estimated that over 60% of the country's population is between the ages of 16 and 35 years, making it one of the youngest populations on the planet. This implies that the demography would require broader access to qualitative education, superior healthcare facilities, and improved opportunities for their skills and learning to be deployed to rapidly growing sectors of the economy. So far, has not happened.

The structure of the Nigerian economy (high dependence on oil for foreign exchange earnings and low domestic manufacturing activities) suggests that many young persons will remain unemployable. The country has an estimated 40.5m small and medium-sized businesses with most of these enterprises barely able to scrap up decent earnings as high running costs clip their wings. Unfortunately, the country's educational system has only recently started to reposition its admission policy and curricula to favour the hard sciences in contrast to liberal arts and the social sciences. The mismatch between qualifications and job requirements will produce a pressure cooker society with crisis persistently simmering just beneath the surface.

Indeed, the difference between the skills the Nigerian economy needs and the skills Nigerian youths possess can only worsen the domestic unemployment rate and raise touchpoints for social disaffection, dislocation, and revolt. Analysts have noted that the problem starts with a slow-moving economy that has idled along at a rate below the +2.6% annual population growth rate, thereby reducing the country's income per person.

To be sure, for those who have taken time to monitor unemployment, disaster does not always come in a flash, it sometimes grows like an Indian Baobab tree, slow at first until it reaches a tipping point, where it explodes into a forest giant. Behavioural economists note that social crisis stares Nigeria in the face if it does not pull its GDP up by at least an additional 8% per annum. The quietly climbing jobless rate could very suddenly burst into a mass movement of troubled youths seeking work and finding long queues, frustration, and sore feet.

Although bandaged feet are bad enough, it would not be as damaging as the bruised egos, the sense of despair, and the burning desire to make somebody pay for their hardship.

Capital Importation- When Foreigners Vote with their Dollars.

As was noted in the previous section Nigeria has a myriad of socio-economic challenges that threaten growth and stability, prominent of which has been unemployment and underemployment. However, to help temper the severity of the problem imported capital has proved supportive as international investors pour dollars into the local economy, and Nigerians in the diaspora take a hard look back in search of higher investment yields.

Capital importation has been wavering in the last half-decade between 2016 and 2020. At the beginning of the economic recession in 2016 capital imports became historically low. Imports were almost forgettable over the four quarters of 2016 but rose noticeably as the global economy shrugged off the after-effects of the economic downturn by Q3 2017. In the third quarter of 2017 capital importation got to US$ 4.15bn before climbing to US$5.38bn in Q4 of the same year. With global economies showing signs of a sustained recovery in 2018, and investor confidence springing back as they become less risk-averse, the capital importation figures spiked as capital inflows rose to US$6.3bn in Q1 and US$5.51bn in Q2 2018.

Rising capital import continued in Q1 2019 after a sharp drop to US$2.86bn in Q3 and US$2.14bn in Q4 2018. Capital imports in Q1 2019 hit a high of US$8.51bn before dropping back to US$6.05bn in Q2 and US$3.8bn in Q4 2019. Surprisingly, the beginning of 2020 saw capital importation rise strongly to US$5.85bn in Q1 at the start of the coronavirus pandemic, even though, Nigeria was not immediately threatened by the outbreak. By Q2 2020 with the decision to partially lockdown the Nigerian economy the levels of capital importation shrank. For example, capital importation fell from US$5.85bn in Q1 2020 to US$1.29bn in Q2 and US$1.46bn in Q3 2020, representing two low-base capital import figures that were last seen in the recessionary year of 2016.

A Rebound and Alphabet Soup

The outlook for the Nigerian economy in 2021 is mildly optimistic. Analysts believe that GDP would grow at a steady rate of between +1.5% and +2.4% as manufacturers regain their bearings, supply chains become re-established and consumer demand rises. However, much depends on how fast coronavirus vaccinations can be provided for the most vulnerable members of the population. The projection that 40% (or roughly 80m citizens) of the population would receive vaccinations in the year is wildly hopeful. The country would at best vaccinate a fraction of the proposed number.

This means that herd protection may become increasingly critical in keeping the economy open throughout the year. The various governments would need to keep citizens safe by enforcing non-pharmaceutical measures to bring down the numbers of infected people. The COVID-19 inter-personal contact protocols would need rigorous adherence to stop the rapid communal spread of the virus in places like Lagos State, Rivers State, and Abuja. Besides, the distribution consideration for vaccines must shelve the suboptimal concept of so-called 'federal character' and deal with epicentres faster than places with lower virus incidences.

If the economy stays open throughout the year, the letter W would more closely describe its recovery pattern, in contrast to other alphabet patterns such as V which suggests that the economy will not suffer a growth relapse as a result of the virus or the letter K which indicates that larger corporations will rebound more quickly than their smaller counterparts who may suffer a steady decline as they find it difficult to re-establish supply chains and recover customer demand.

More recently some local economists have proposed a square root recovery which would involve a small and short GDP uplift before a long decline followed by a steep recovery that heads into a period of flat future growth. This shaped recovery is theoretically plausible but practically unlikely.

Indeed, the growing consensus amongst local analysts is that the W-shaped recovery remains the most likely portion of the alphabet soup of recovery outcomes expected between 2021 and 2023. A lot, however, depends on how well the governments at different levels handle the COVID-19 pandemic. An accelerated spread of the disease could pivot recovery from a W-shaped recovery to an L-shaped one with manufacturing and output sliding down and getting caught in a low-base growth trap.

If the virus is tackled effectively without necessitating a renewed shutdown, then growth will progress steadily while the inflation rate falls gradually between Q3 and Q4 2021. Without a further lockdown inflation rate may average +14.2% in 2021, as it adjusts downwards from the recent December 2020 rate of 15.75%. Analysts expect inflation to be above 15% in both Q1 and Q2 2020, as food inflation remains a worrying fixture of domestic consumer prices.

The escalating insecurity in the country's farm belt because of incessant attacks of farmers by gun-wielding cattle herdsmen will put pressure on farmgate food supplies. This would worsen the pre-existing farming problems of poor road networks, the absence of bulk farm produce storage facilities, and road levies charged by non-state actors along traditional rural to urban centre farming routes.

Section 1 of the report takes an overview of global economies and how they have coped with the coronavirus pandemic and the global economic outlook for 2021. The section also looks at African economies and how they will shape up to meet the challenges of 2021 as global supply chains become recoupled and international trade becomes gingerly restored.

The section dissects the Nigerian economy while delivering a few prognoses. It noted that opening closed land borders, improving domestic healthcare management, and creating supporting infrastructure could help to push up growth and reduce inflation rate uncertainty. According to the report, *"The recent decline in the rate of contraction could be tied to the easing of restrictions on businesses, the reopening of international and domestic travels, and a resumption of wholesale and retail trading activities. The shift in the economic needle in the last three months reflects an expected rebound in businesses but still carries the threat of a pandemic-induced reversal accompanied by a potential fall in oil demand and prices"*.

The report looked at the major economic numbers that characterised 2020. It also looked at the year beyond the numbers and settled on a few base rate assumptions about 2021 and how economic agents look at the way things could shape up. **Section 2** equally took a position of the prospects for capital importation, investment, consumption, monetary and fiscal policy, trade, and domestic unemployment.

In **section 3** the report reviewed the country's major economic indicators and drew up frameworks under which the economy could see growth in 2021.

Section 4 reported what was turning into a perfect policy storm in 2020 and its implications for 2021. The report considered how both the Federal Ministry of Finance (MoF) and the Central Bank of Nigeria (CBN) were pairing up to meet the challenges of inflation, unemployment, and falling GDP growth in addition to how the COVID-19 pandemic was wedging a spanner in the works. The report noted that *"As COVID-19 took a bite out of economic activities and international oil prices, investors pulled back from intended capital commitments as they decided to sit on the fence. The uncertainty in the global economy has since hurt domestic investment flows"*.

Investors are expected to return in Q2 2020 as supply chains gradually become restored and uncertainty about the future pivots towards optimism. With COVID-19 vaccination being administered globally, economies are expected to open up as travel numbers rise, and the hospitality sector experiences greater naira flows as theatres, parks, event centres, and other public places gradually restore activities to their pre-COVID-19 levels. The growth in business activities will open the wallets of investors as they see mega naira cash flows in the future becoming a real proposition.

Section 5 looked at how the different sectors of the economy fared in 2020 and what the tea leaves have said about their fortunes in 2021. The COVID-19 pandemic affected Nigeria's various economic sectors differently with some sectors winning and others ending up with black eyes. Winners included technology-based companies including companies in the telecommunications and entertainment sectors. Losers included shopping malls, cinemas, clubs, restaurants, hotels, airlines, manufacturing companies, and to a lesser extent logistic firms.

The section provided scenarios under which reversals could occur in each sector and provided context for expected 2021 industry narratives.

Section 6 addressed market indicators and how financial markets fared amid the COVID-19 pandemic. It took a scenic detour across various markets and painted the picture of what was, is, and could be for the markets in 2021.

Section 7 of the report concentrated on the ten megatrends that are likely to define the economic and financial arena that Nigerians will reside in 2021. It plays up the big moves that will shake up the world of Nigerians the way they have known it. From changing educational templates to flexible working arrangements, the next normal will see a shift in social relationships and mental perception. According to the report *"The new digital work culture accelerated by the global health pandemic may lead to permanent changes in the way people work, live, and even love"*.

The report notes that *"Nobody can say for now how successful a vaccine would be in containing the spread of the virus. There are different expectations based more on hope than science. If the vaccine works well, then economies will revert to pre-COVID-19 outputs, incomes, and job rates within eighteen months. Nevertheless, this is conjecture rather than fact. A lot will depend on the vaccine's efficacy and the speed with which it is circulated and used. So far, judging from the distribution of the vaccine in the USA and Europe, enthusiasm appears mooted"*.

Section 8 concludes the report and conjectures on how Nigeria can take advantage of the ongoing economic and health challenges to reset the economy and establish an equitable and productive society committed to the best of global economic and democratic practices.

Introduction


The Nigeria Capital Market Report 2020
Leveraging A Crisis: The Nigerian Capital Market in 2020
January 2021
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proshare MARKETS

Introduction

Global Economy

The global economic growth in 2020 was shaped by a couple of events prominent of which was the COVID-19 pandemic, US-Sino trade war, talks about Brexit negotiations, etc. The global world was stunned by the advent of the COVID-19 pandemic which disrupted economic activities and growth. The adverse effect of the COVID-19 pandemic was largely sensed by most advanced, emerging, and frontier economies in the second and third quarters of the year (*see Table 1*).

***Table 1:* Events Which Shaped the Year 2020**

EVENTS WHICH SHAPED THE YEAR 2020

Events	Affected Parties	Degree of Impact	Reasons
COVID-19 Pandemic	Global economy	Significant	• The IMF predicted that between 88 and 115m people would fall into poverty at the end of the year, and the figure would rise further to between 119 and 124m in 2021. The body also forecasts an increase in extreme poverty. • Prices of West Texas Intermediate oil also fell to -$37.63 per barrel, the lowest ever recorded in history. • The general plummet in oil prices profoundly affected Nigerian government revenue in light of the huge dependence on oil proceeds. • Nigerian GDP was also reported to have reduced by 23% or US$11bn as a result of the lockdown.

Events	Affected Parties	Degree of Impact	Reasons
Brexit	UK, the EU, Trading Partners	Moderate	• Uncertainties surrounding the deal led to mass closures of automobile factories as carmakers cancelled plans to manufacture new vehicles. These decisions were taken in light of uncertainties around future costs, customs declaration, etc. • EY estimates that about 7500 people in the finance sector were moving to secure residence rights in the EU as a result of uncertainty. Financial services firms also moved about $1.6trn in assets from Britain to the EU ahead of Brexit. • South African companies listed on the London Stock Exchange suffered losses during the year.
AfCFTA	Africa	No effect	• Postponed commencement due to COVID-19
US Elections	Global Economy	Little or no effect	• The triumph of Joe Biden in the presidential elections had little to no effect as his tenure commenced on January 20th, 2021. • However, it led to surges in stock markets in different countries around the globe. The FTSE 100 index gained about 94 points in early trading which amounted to a 1.6% gain, while the Nikkei index rose by 2.12%. The ASX200 in Sydney finished at 1.75%.
US-China trade wars	Parties to the trade wars, their trading partners, Five Eyes Countries	Moderate	• Led to trade diversions away from the United States and China. • US companies lost at least $1.6 trn in the prices of their stocks due to US tariffs imposed on imports from China. • Rail employment in the US declined by 10% and about 20000 rail workers lost their job, the greatest number recorded since the Great Recession.

Source: Proshare Research, Ecographics

Most advanced and emerging economies except for China recorded a contraction in their GDP in the second and third quarters of the year. Most countries recorded their worst recession in over a long time e.g., India plunged into recession for the first time in nearly a quarter of a century, Japan slipped into recession in the second quarter of 2020 which was the biggest decline since comparable figures became

Table 2: ***World Economic Outlook Growth Projections***

WORLD ECONOMIC OUTLOOK GROWTH PROJECTIONS

		Projection	
(Real GDP, annual percent change)	2019	2020	2021
World Output	2.8	-4.4	5.2
Advanced Economies	1.7	-5.8	3.9
United States	2.2	-4.3	3.1
Euro Area	1.3	-8.3	5.2
Germany	0.6	-6.0	4.2
France	1.5	-9.8	6.0
Italy	0.3	-10.6	5.2
Spain	2.0	-12.8	7.2
Japan	0.7	-5.3	2.3
United Kingdom	1.5	-9.8	5.9
Canada	1.7	-7.1	5.2
Other Advanced Economies	1.7	-3.8	3.6
Emerging Markets and Developing Economies	3.7	-3.3	6.0
Emerging and Developing Asia	5.5	-1.7	8.0
China	6.1	1.9	8.2
India	4.2	-10.3	8.8
ASEAN-5	4.9	-3.4	6.2
Emerging and Developing Europe	2.1	-4.6	3.9
Russia	1.3	-4.1	2.8
Latin America and the Caribbean	0.0	-8.1	3.6
Brazil	1.1	-5.8	2.8
Mexico	-0.3	-9.0	3.5

		Projection	
(Real GDP, annual percent change)	2019	2020	2021
Middle East and Central Asia	1.4	-4.1	3.0
Saudi Arabia	0.3	-5.5	3.1
Sub-Saharan Africa	3.2	-3.0	3.1
Nigeria	2.2	-4.3	1.7
South Africa	0.2	-8.0	3.0
Low-Income Developing Countries	5.3	-1.2	4.9

Source: IMF, World Economic Outlook, October 2020

The pandemic negatively affected corporates, individuals, and governments of economies all over the world who had to re-adjust lifestyles, operations, and outlooks to adapt to the ***"new normal"***. The virus created some winners and losers in the economy. Some businesses and sectors gained in popularity and sales because of the COVID-19 pandemic they include technology sector, health sector, entertainment sector, etc. On the flip side, some sectors, and activities such as restaurants, hospitality, transportation, etc were at the receiving side of the divide as their operations were largely affected by the virus (*see Table 3*).

Table 3: ***Winners and Losers from the Pandemic***

SECTORS GAINERS AND LOSERS

Gainers	Losers
E-commerce - Alibaba, JD.com	Auto industries - Hyundai, Toyota, General Motors
Health - Clorox, Purell, Lysol	Tourism/hospitality - Intrepid travel, Globus, Topdeck
Online Entertainment- Youtube, Netflix	Airlines - British airlines, Ethiopian airlines, Delta airline
Online gaming operations- Tencent, Netease and CMGE	Electronics - Sony, Samsung

Source: Proshare Research

Different fiscal and monetary measures were applied by various countries to cope with the negative effect of the COVID-19 virus. Advanced nations were able to provide more fiscal and monetary stimulus to the economy because of their robust fiscal structure e.g., the U.K coronavirus job retention scheme was extended until 30 April 2021, the American congress recently passed a $900bn stimulus bill to help revive growth, the Australian government fiscal stimulus of A$300bn. On the other hand, most frontier economies struggled in financing their weak economy because of already huge fiscal debt and poor revenue structure e.g., Zambia became Africa's first coronavirus-era default (*see Table 4*).

Table 4: Snapshot of Fiscal and Monetary Policies Adopted by Some Selected Countries

MONETARY AND FISCAL POLICIES IMPLEMENTED BY COUNTRIES

Countries	Monetary Policy	Fiscal Policy
Germany	• Increased bond purchases under the Pandemic Emergency Purchase Programme (PEPP) by €600bn, to a total of €1.35trn. • The countercyclical capital buffer for banks was released from 0.25 percent to zero. • A three-month moratorium on consumer loans taken before March 15th was granted until June 30th 2020 for households which were affected by the COVID-19 pandemic.	• The German government passed two supplementary budgets of about €156bn (4.9% of GDP) and €130bn (4% of GDP) in March and June respectively, amounts which surpassed the binding borrowing limit of 0.35% of GDP. • €100bn was allocated within the ***Wirtschaftsstabilisierungsfonds*** (WSF), i.e. Economic Stabilisation Fund in order to strengthen the capital position of companies affected by the COVID-19 pandemic. • The government also set aside €7.5bn to provide job seekers with easier access to basic benefits. • The newly established economic stabilization fund and public development bank ***Kreditanstalt für Wiederaufbau*** (kFW) i.e. the Credit Institute for Reconstruction increased the volume of available guarantees for firms of differing sizes, credit insurers, and non-profit institutions. • Implemented a drop in VAT to increase sales tax and stimulate spending and inflation [VAT standard rate was reduced to 16% from 19% and VAT reduced rate was dropped to 5% from 7% from 1 July 2020 to 31 December 2020].

Countries	Monetary Policy	Fiscal Policy
Canada	• The Bank of Canada dropped the overnight rate to 25 basis points. • The Bank of Canada ventured into the purchase of large-scale assets such as private sector and provincial debt as part of its Quantitative Easing (QE) programme. • The Bankers Acceptance Purchase Facility was launched to promote purchases of bankers acceptances by the Bank of Canada and revitalize the market. • The Office for the Superintendent of Financial Institutions (OSFI) lowered the Domestic Stability Buffer for Domestic Systemically Important Banks (D-SIBs) to 1% of risk weighted assets from 2.25%.	• The Government carried out a near-doubling of the wage subsidy program to $80bn. • Almost $240bn in treasury bills was raised by the government in April and May. • In November, the Fall Economic Statement was released which outlined their 'build back strategy' aimed at recovery from the COVID-19 pandemic. • The government offered $85bn (about 3.9% of GDP) in liquidity support through tax deferrals.
India	• The policy repo rate was reduced by 75 basis points from 5.15% to 4.40%, 4%, and finally 3.55%. • CRR of all banks were reduced by 100 basis points to 3% in March 2020 to release liquidity. • An increase in Marginal Standing Facility (MSF) was also effected to 3% of the Statutory Liquidity Ratio (SLR). • The Reserve Bank of India conducted auctions of Targeted Long Term Repo Operations (TLTRO) of up to a three-year tenor of appropriate sizes for a total amount up to ₹2 lakh crore (about $26bn) at a floating rate, linked to policy repo rate.	• The government announced various support measures whch the IMF divides into above-the-line and below-the-line measures. The above-the-line measures include government spending, foregone or deferred revenues and expedited spending. Below-the-line measures on the other hand include strategies aimed at supporting businesses and shoring up credit provision to several sectors. • The government announced three series of stimulus packages: + ₹1.7trn in March, ₹20trn in May, and ₹2.65 crore in November.
Indonesia	• Bank Indonesia reduced the policy rate by 125 base points in February, March, June, July, and November to 3.75%. • In order to ease liquidity conditions, the Bank Indonesia lowered the reserve requirement ratios for banks, introduced daily repo auctions, increasing the maximum duration for repo and reverse repo operations for up to 12 months, among others.	• The government announced various fiscal packages of * IDR 33.2trn and IDR405trn, which was later increased to IDR677.2trn to foster economic recovery. • The fiscal package implemented the decrease of corporate income tax from 25% to 22% (to commence 2020/2021) and subsequently 20% (to commence 2022).

Countries	Monetary Policy	Fiscal Policy
Botswana 	• The Bank of Botswana cut its benchmark interest rate by 50 basis points to 3.75%. • The Bank set the rates on refinancing of loans and on temporary accomodations at 1.5% and 3.38%. • The Bank of Botswana decreased the Primary Reserve Requirement (PRR) of 2.5 percent by 50 basis points in order to inject liquidity into the system in October. • The Capital Adequacy Ratio was reduced to 12.5% from 15%. • A new annual downward rate of crawl was set at 2.87% from the previous rate of 1.51% . the rate was implemented from May 2020.	• The Government set up a COVID-19 Pandemic Relief Fund into which it contributed #P2bn. • A P1bn loan guarantee fund was set up and financed by the government (and a 20% contribution by commercial banks) to aid tax compliant businesses. The guarantee was to last a period of 24 months.

+ Indian rupees
** Indonesian rupiah*
 # Pula

Source: Proshare Research, Ecographics

Global Debt Worrisome

Many nations resorted to borrowing to finance their fiscal responsibilities to support the recovery of their battered economy. According to the Institute for International Finance, the global debt levels rose to a new high of over $272trn in the third quarter of 2020 while emerging-market debt is forecast to rise to 210% of GDP in 2020 from 185% in 2019. It has been forecasted that global debt could rise further to reach $277trn, or 365% of GDP by the end of 2020. Most nations are battling weak economic growth and are racking up debt to support these low levels of economic growth.

To help relieve poor countries from their huge debt size and obligations, leaders of the world's 20 biggest economies endorsed a plan to extend a freeze in official debt service payments by the poorest countries to mid-2021 and backed a common approach for dealing with their debt problems.

It remains unclear as to what steps China is taking to help relieve poor countries that are highly indebted to it. Although China has noted that it is fully implementing a temporary suspension to help indebted countries, mostly in Africa, however, it will likely refrain from working closely with Western governments in debt restructuring to keep its upper hand in negotiations with borrower countries (*see Table 5*).

Table 5:* *Major Advanced Economies: General Government Fiscal Balances and Debt (Percent of GDP)

MAJOR ADVANCED ECONOMIES: GENERAL GOVERNMENT FISCAL BALANCES AND DEBT (PERCENT OF GDP)

			Projection	
	2018	2019	2020	2021
Major Advanced Economies				
Net Lending/Borrowing	-3.7	-4.2	-16.2	-7.6
Output Gap	0.2	0.4	-3.6	-2.2
Structural Balance	-3.6	-4.3	-12.5	-6.2
United States				
Net Lending/Borrowing	-5.8	-6.3	-18.7	-8.7
Output Gap	0.4	1.0	-3.2	-1.5
Structural Balance	-5.7	-6.8	-15.0	-7.6
Net Debt	83.2	84.0	106.8	107.3
Gross Debt	106.9	108.7	131.2	133.6
Euro Area				
Net Lending/Borrowing	-0.5	-6.3	-10.1	-5.0
Output Gap	0.2	1.0	-5.1	-3.2
Structural Balance	-0.5	-0.6	-5.3	-3.1
Net Debt	70.4	69.2	85.1	84.7
Gross Debt	85.7	84.0	101.1	100.0
Germany				
Net Lending/Borrowing	1.8	1.5	-8.2	-3.2
Output Gap	1.2	0.4	-3.5	-1.8
Structural Balance	1.3	1.3	-5.8	-1.8
Net Debt	42.7	41.1	54.1	54.2
Gross Debt	61.6	59.5	73.3	72.2

			Projection	
	2018	2019	2020	2021
France				
Net Lending/Borrowing	-2.3	-3.0	-10.8	-6.5
Output Gap	-0.5	0.0	-5.6	-4.0
Structural Balance	-1.7	-2.0	-4.5	-4.0
Net Debt	89.3	89.4	110.0	109.8
Gross Debt	98.1	98.1	118.7	118.6
Italy				
Net Lending/Borrowing	-2.2	-1.6	-13.0	-6.2
Output Gap	-0.7	-0.7	-5.4	-4.0
Structural Balance	-1.9	-1.3	-3.8	-3.4
Net Debt	122.9	123.0	148.8	146.1
Gross Debt	134.8	134.8	161.8	158.3
Japan				
Net Lending/Borrowing	-2.5	-3.3	-14.2	-6.4
Output Gap	-0.8	-0.7	-3.0	-2.1
Structural Balance	-2.5	-3.0	-12.7	-5.6
Net Debt	153.5	154.9	177.1	178.9
Gross Debt	236.6	238.0	266.2	264.0
United Kingdom				
Net Lending/Borrowing	-2.3	-2.2	-16.5	-9.2
Output Gap	0.0	0.0	-3.9	-3.5
Structural Balance	-2.3	-2.2	-14.0	-6.4
Net Debt	75.9	75.4	98.1	101.6
Gross Debt	85.7	85.4	108.0	111.5

			Projection	
	2018	2019	2020	2021
Canada				
Net Lending/Borrowing	-0.4	-0.3	-19.9	-8.7
Output Gap	0.6	0.4	-3.8	-1.4
Structural Balance	-0.7	-0.6	-16.5	-7.9
Net Debt	26.5	25.9	46.4	48.4
Gross Debt	89.7	88.6	114.6	115.0

Debt data refer to the end of the year and are not always comparable across countries. Gross and net debt levels reported by national statistical agencies for countries that have adopted the System of National Accounts 2008 (Australia, Canada, Hong Kong SAR, United States) are adjusted to exclude unfunded pension liabilities of government employees defined-benefit pension plans. Fiscal data for the aggregated major advanced economies and the United States start in 2001, and the average for the aggregate and the United States is therefore for the period 2001–07.

Percent of potential GDP.
Figures reported by the national statistical agency are adjusted to exclude items related to the accrual-basis accounting of government employees defined-benefit pension plans.

Source: IMF, World Economic Outlook

proshare ECONOMY

Examining Global Economic Indicators

PMI

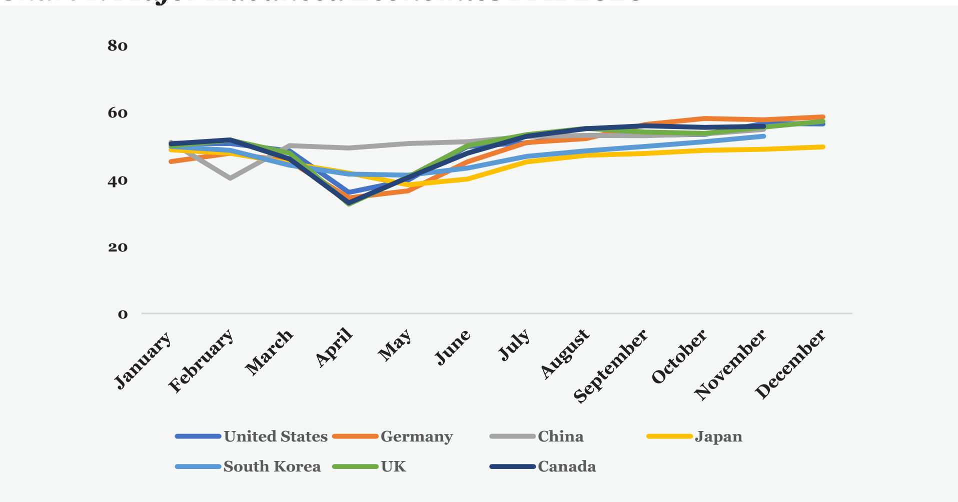
Advanced Economies

At the start of the year 2020, some advanced economies recorded PMI's above 50 indicating an expansion e.g., the United States recorded a PMI of 50.8 in January, while the UK's PMI was 50, and Canada 50.6. On the flip side, some advanced economies recorded PMI's below 50 indicating a contraction e.g., Germany recorded a PMI of 45.3 in January, Japan 48.8, and South Korea 49.8.

The rapid spread of the novel coronavirus led to lockdown in most of the advanced economies which disrupted supply chains. Hence, this led to a contraction in PMIs in the major advanced economies in the second quarter of 2020 as factory activities took a downturn e.g., the PMIs of major advanced economies as of May 2020 was the following the US 39.8, Germany 34.5, Japan 38.4, South Korea 41.3, UK 40.7, and Canada 40.6.

Most of the major economies recorded improvements in their PMI as lockdown measures were gradually eased and factory activities resumed. In November 2020, major advanced economies recorded expansions in PMI except Japan which recorded a contraction. PMIs of most advanced economies were the following United States 56.7, Germany 57.8, South Korea 52.9, UK 55.6, and Canada 55.8 while Japan recorded a contraction in PMI of 49 points (*see Chart 1*).

Chart 1: ***Major Advanced Economies PMI 2020***



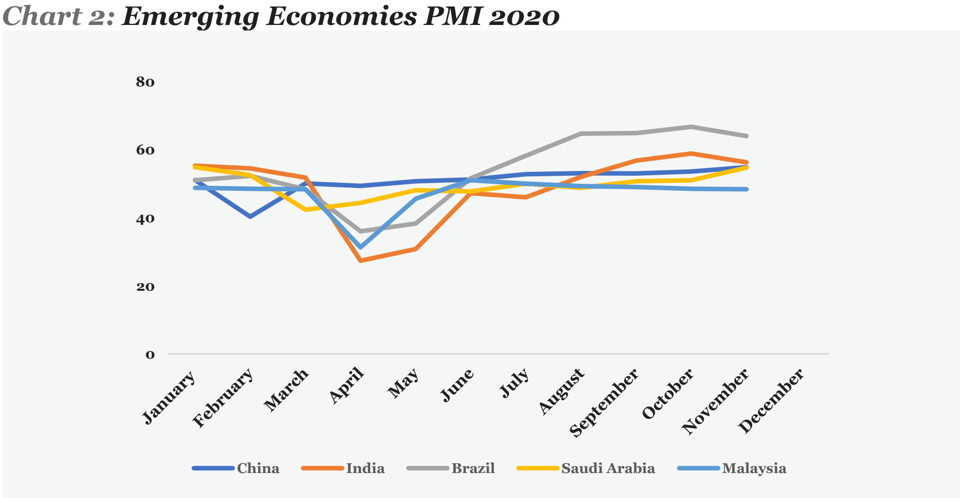
Source: IHS Markit, Proshare Research

Emerging Economies

In a similar pattern with most of the advanced economies, some major emerging economies recorded an expansion in their PMI at the start of the year while some recorded a contraction. For example, the following emerging economies recorded expansion in their PMI in January 2020; China's PMI was 51.1 in January, India 55.3, Brazil 51, and Saudi Arabia 54.9 while Malaysia recorded a contraction in its PMI, as its PMI was 48.8. At the heat of the pandemic coronavirus, most emerging economies recorded contraction in their PMI as the effect of the pandemic coronavirus bit harder. In April 2020, all emerging economies reviewed recorded a contraction in PMI e.g., China's PMI was 49.4, India 27.4, Brazil 36, Saudi Arabia 44.4, and Malaysia 31.1.

Most of the emerging economies started opening their economy as they were able to study, adapt, and understand the pattern of the spread of the virus, so did their PMIs improve as factory activities resumed. In November 2020, most of the emerging economies recorded an expansion in their PMI e.g., China's PMI was 54.9 which depicts an expansion, India 56.3, Brazil 64, Saudi Arabia 54.7 while Malaysia recorded a PMI of 48.4 which depicts a contraction (*see Chart 2*).

Chart 2: ***Emerging Economies PMI 2020***



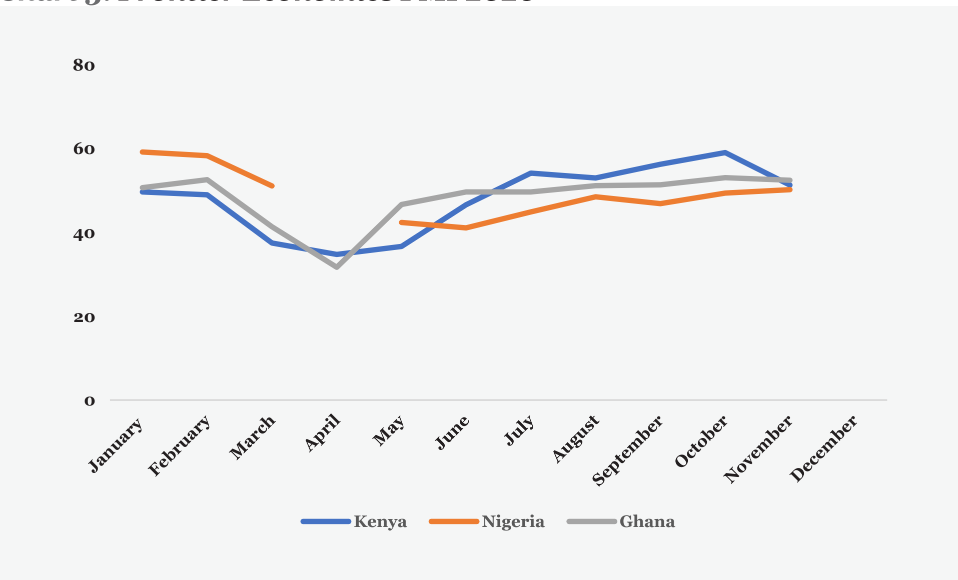
Source: IHS Markit, Proshare Research

Frontier Economies

Due to the paucity of data, only three frontier economies were reviewed. Similar to the trends in PMIs in both advanced economies and emerging markets, two (2) of the three (3) frontier economies recorded expansion in their PMI e.g., In January 2020, Nigeria and Ghana recorded expansion in PMI by 59.2 and 50.7 respectively while, Kenya recorded a contraction in its PMI, as its PMI was 49.7.

All frontier economies reviewed recorded a contraction in their PMI as of May 2020 as the effect of the lockdown to halt the spread of the virus hit manufacturing activities hard e.g., In May 2020, all economies reviewed recorded contraction in their PMI Kenya 36.7, Nigeria 42.4, and Ghana 46.7 (*see Chart 3*).

Chart 3: Frontier Economies PMI 2020



Source: IHS Markit, Proshare Research

GDP

Most economies around the world have had the difficult task of choosing between lives and livelihood. Many nations temporarily locked their economies to prevent the spread of the virus, which had a devastating effect on businesses, corporates, individuals, and the overall economy. The effect of the coronavirus pandemic on the various economies adversely affected their GDP in the first and second quarter of 2020 while a gradual return to the path of growth was signalled in the third quarter of 2020.

Economic experts and international organizations have predicted that most economies would record a rebound in growth in 2021. The development of vaccines that have proved effective has also increased expectations that a rebound in economic activities would be faster than expected.

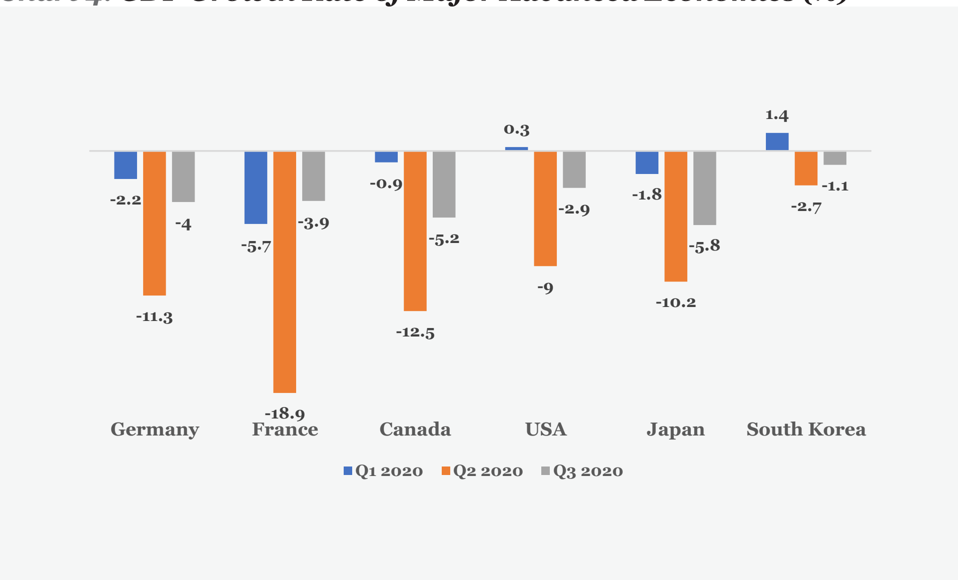
Advanced Economies

Most of the advanced economies recorded contractions in their GDP in the first, second, and third quarter of 2020 as the effect of the pandemic coronavirus created unprecedented panics and uncertainty. In the first quarter of 2020, most of the advanced economies recorded contractions except for the USA economy and the South Korean economy that recorded growths e.g., German economy contracted by -2.2%, France -5.7%, Canada -0.9%, Japan -1.8% while USA economy recorded growth of +0.3% and South Korea +1.4%.

The adverse effect of the virus on most of the advanced economies was more pronounced in the second quarter of the year. Contractions in most of the economies worsened in the second quarter of 2020 e.g., the German economy contracted by -11.3%, France -18.9%, Canada -12.5%, USA -9%, Japan -10.2%, and South Korea -2.7%.

Most major economies eased the lockdown of their economies at the end of the second quarter of 2020 as the number of coronavirus cases dwindled. The effect of the ease of the lockdown was the rebound in major economic activities which reduced the contractions in most of the advanced economies e.g., the German economy contracted by -4%, France -3.9%, Canada -5.2%, USA -2.9%, Japan -5.8%, and South Korea -1.1% (*see Chart 4*).

Chart 4: GDP Growth Rate of Major Advanced Economies (%)



Source: Trading Economics, Proshare Research

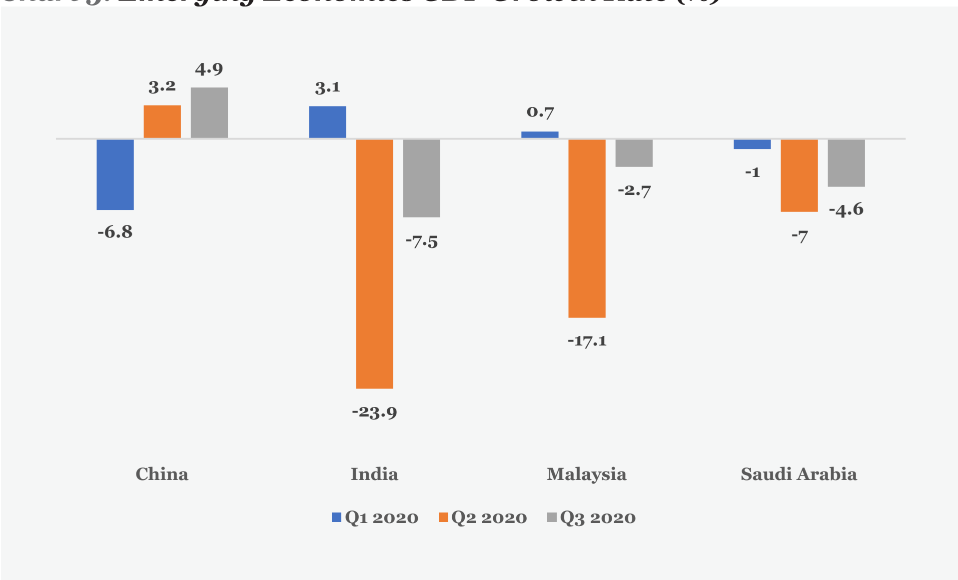
Emerging Economies

Amongst the major emerging economies in 2020, China recorded the steepest contraction in GDP in the first quarter of 2020. The coronavirus originated from the Chinese economy, hence the reason for the steep level of contraction in the economy. In Q1 2020, the Chinese economy contracted by -6.8% and Saudi Arabia contracted by -1%. On the other hand, India and Malaysia recorded economic growth of +3.1% and +0.7% respectively.

Amongst the major and emerging economies only China recorded economic growth in Q2 and Q3 2020 while the other emerging economies recorded contraction in Q2 2020. China recorded a growth of +3.2% in Q2 2020, its growth was triggered by the quick resumption in economic activities, after successfully containing the spread of the virus. While the other emerging economies recorded contractions e.g., India -23.9%, Malaysia -17.1%, and Saudi Arabia -7%.

The Chinese economy continued its impressive rebound from a contraction in Q3 2020 as its control of the spread of the coronavirus had a positive effect on its economy as economic activities rebounded faster than expected. On the other hand, despite the resumption of economic activities in other emerging economies the impact of the virus still lingered in the third quarter of 2020. While the Chinese economy expanded by +4.9% in Q3 2020, other emerging economies contracted e.g., India -7.5%, Malaysia -2.5%, and Saudi Arabia -4.6% (*see Chart 5*).

Chart 5: Emerging Economies GDP Growth Rate (%)



Source: Trading Economics, Proshare Research

Frontier Economies

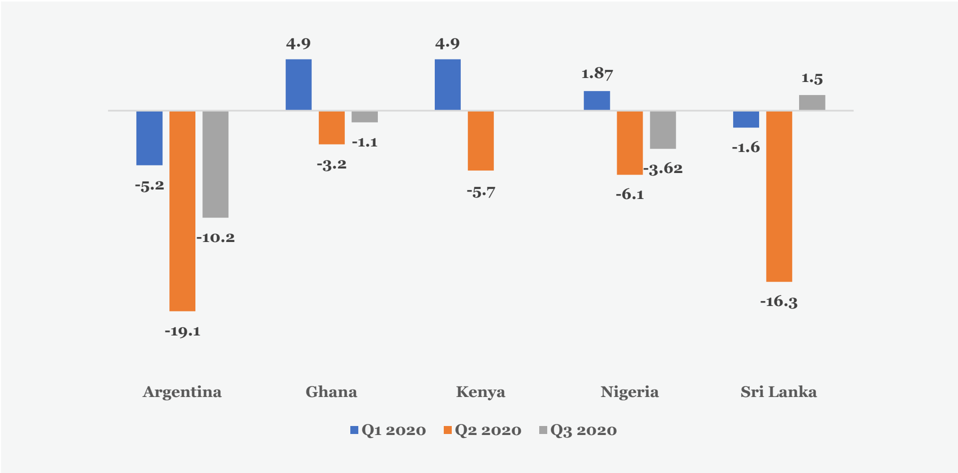
Frontier economies were not spared from the ravaging effects of the coronavirus pandemic on their economic growth. While most of the frontier economies reviewed recorded growth in their economies in Q1 2020 e.g., Ghanaian economy grew by +4.9%, and Nigeria +1.87, and Kenya +4.9% while Argentina and Sri Lanka recorded contractions of -5.2% and -1.6% respectively.

The effect of the pandemic was more prominent in frontier economies in Q2 2020. All frontier economies reviewed contracted in Q3 2020 e.g., Argentine economy contracted by -19.1%, Ghana -3.2%, Kenya -5.7%, Nigeria -6.1%, and Sri Lanka -16.3%.

Like the Q3 GDP trends in advanced and emerging economies, frontier economies also recorded contractions in their GDP, but it was less steep when compared to the previous quarters. In Q3 2020, the Argentine economy contracted by -10.2%, Ghana -1.1%, Nigeria -3.62%, while the Sri Lankan economy grew slightly by +1.5% (*see Chart 6*).

Chart 6: Frontier Economies GDP Growth Rate (%)

Chart 6: ***Frontier Economies GDP Growth Rate (%)***



Source: Trading Economics, Proshare Research

Inflation Rate

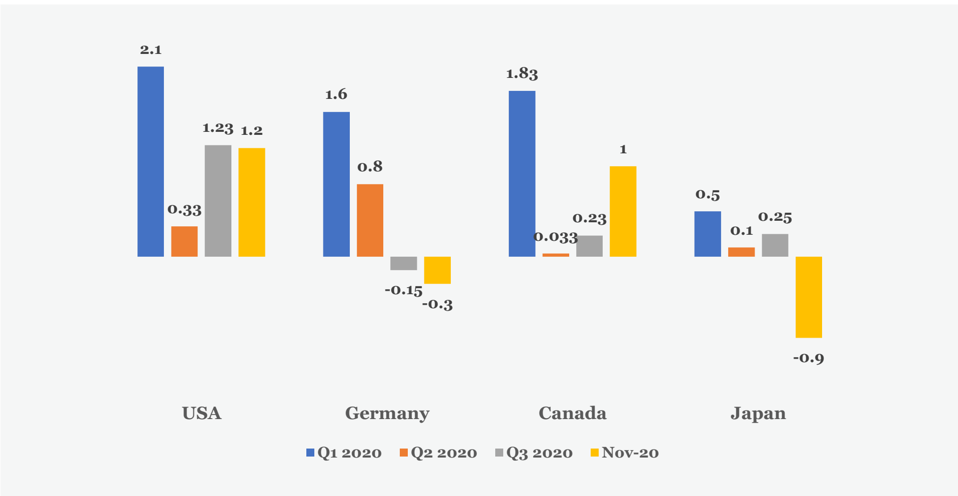
Advanced Economies

Most advanced economies recorded healthy levels of inflation rate before the effect of the coronavirus pandemic began to raise its ugly head. As of Q1 2020, the USA inflation rate was 2.1%, Germany 1.6%, Canada 1.83%, and Japan 0.5%.

As the effects of the pandemic virus bit harder, there was a decline in consumer spending which affected the Consumer Price Index (CPI). Most of the advanced economies recorded a decline in their CPI as of Q2 2020. In Q2 2020, USA CPI stood at 0.33%, Germany 0.8%, and Japan 0.1%.

Furthermore, the disbursement of various fiscal and monetary stimulus packages helped trigger a rebound in economic activities. Most of the advanced economies recorded an increased inflation rate while the German economy recorded a deflation in Q3 2020. In Q3 2020, USA inflation rate stood at 1.23%, Canada 0.23%, Japan 0.25% while Germany recorded a deflation of -0.15% (*see Chart 7*).

Chart 7: ***Advanced Economies CPI (%)***



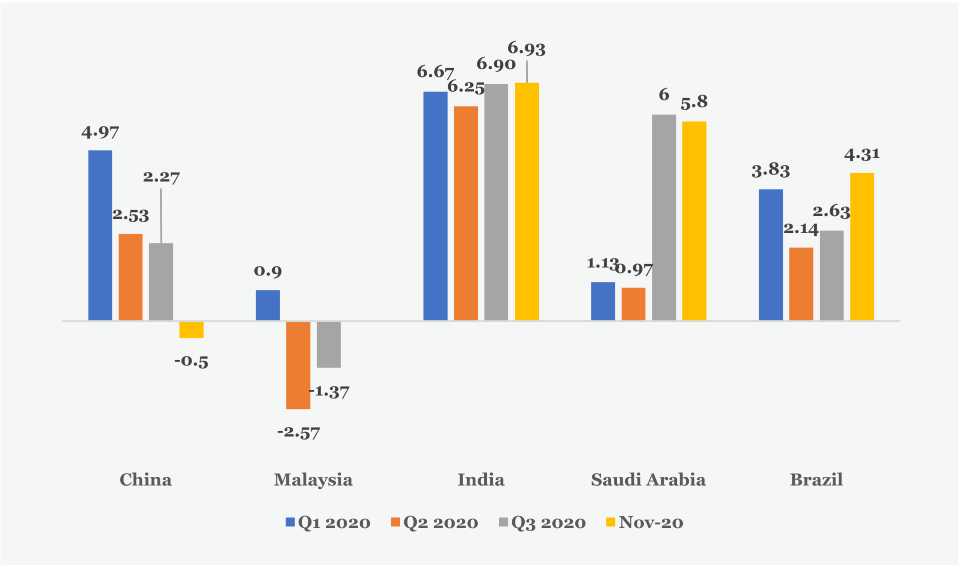
Source: Trading Economics, Proshare Research

Emerging Economies CPI

Most of the emerging economies had a relatively high level of inflation in the first quarter of 2020 e.g., China's inflation rate was 4.97%, Malaysia 0.9%, India 6.67%, Saudi Arabia 1.13%, and Brazil 3.83%. In Q2 2020, when the effect of the pandemic virus became prominent on the economy, there was a decline in consumer spending, and this led to a decline in Consumer's Price Index in most of the emerging economies being reviewed. In Q2 2020, China's consumers price index declined to 2.53%, Malaysia -2.57%, India 6.25%, Saudi Arabia 0.97%, Brazil 2.14%.

As the effect of the pandemic coronavirus began waning off, there was an increase in consumption expenditure, this triggered the rise in inflation rate in most of the emerging economies except China in Q3 2020. Malaysian inflation rate in Q3 2020 was -1.37%, India 6.90%, Saudi Arabia 6%, and Brazil 2.63% while China recorded a decline in inflation rate to 2.27% (*see Chart 8*).

Chart 8: Emerging Economies CPI (%)



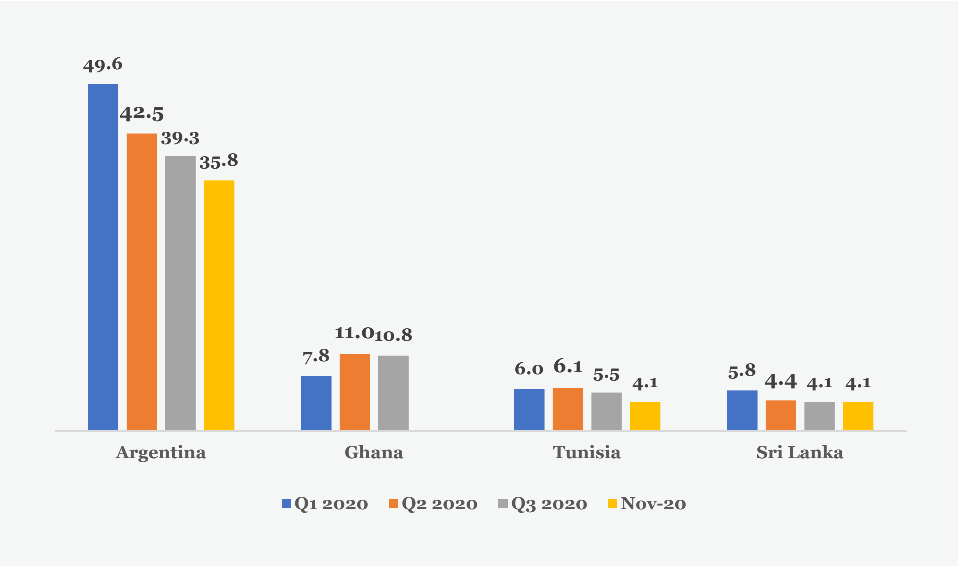
Source: Trading Economics, Proshare Research

Frontier Economies CPI

Unlike advanced economies and some emerging economies that have developed structures that facilitate productivity most frontier economies are characterized by a high level of infrastructural deficiency. The dearth of infrastructural facilitates coupled with the advent of COVID-19 further worsened economic activities and productivity.

In the second quarter of 2020, some of the frontier economies reviewed recorded an increase in their inflation rate while others recorded a decline in their inflation rate. In Q2 2020, Argentine and Sri Lanka's inflation rate declined to 42.5% and 4.4% respectively while Ghana and Tunisia's inflation rate increased to 11.0% and 6.1% respectively (*see Chart 9*).

Chart 9: ***Frontier Economies CPI (%)***



Source: Trading Economics, Proshare Research

Table 6: ***Summary of Inflation (%)***

SUMMARY OF INFLATION (%)

			Projection	
	2018	2019	2020	2021
GDP Deflators				
Advanced Economies	1.7	1.5	1.3	1.4
United States	2.4	1.8	1.4	1.2
Euro Area	1.4	1.7	1.6	1.2
Japan	-0.1	0.6	0.3	0.3
Other Advanced Economies	1.7	1.3	1.2	0.9
Consumer Prices				
Advanced Economies	2.0	1.4	0.8	1.6
United States	2.4	1.8	1.5	2.8
Euro Area	1.8	1.2	0.4	0.9

			Projection	
	2018	2019	2020	2021
Japan	1.0	0.5	-0.1	0.3
Other Advanced Economies	1.9	1.4	0.5	1.2
Consumer PricEmerging Market and Developing Economieses				
Regional Groups				
Emerging and Developing Asia	2.7	3.3	3.2	2.9
Emerging and Developing Europe	6.4	6.6	5.2	5.2
Latin America and the Caribbean	6.6	7.7	6.2	6.7
Middle East and Central Asia	9.5	7.8	9.3	9.3
Sub-Saharan Africa	8.4	8.5	10.6	7.9
Other Groups				
European Union	2.7	1.4	0.8	1.2
Low-Income Developing Countries	8.8	8.4	11.3	9.2
Latin America and the Caribbean	10.7	8.2	9.4	9.9

Source: IMF

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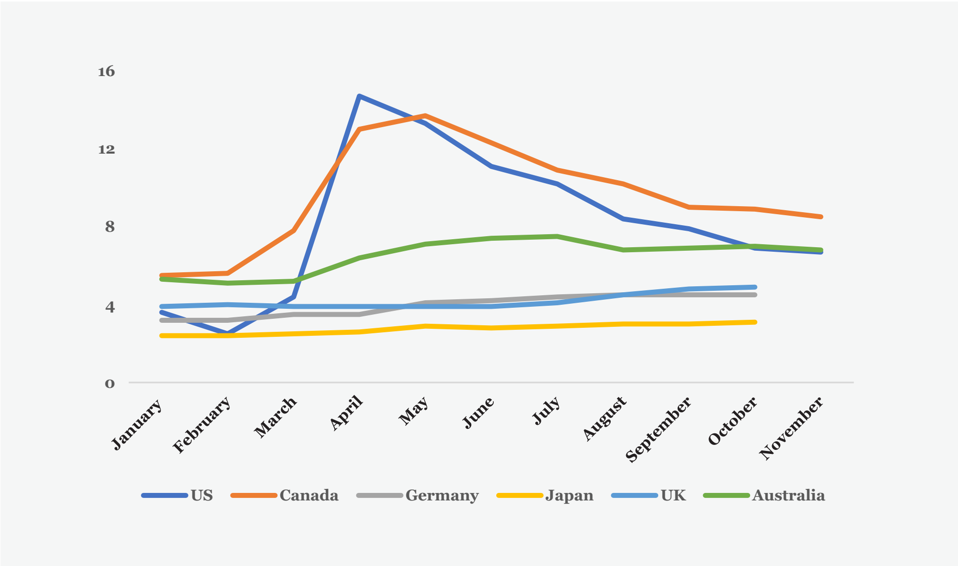
Unemployment Rate

Advanced Economies

Most advanced economies have heard to battle with an increase in the unemployment rate because of the coronavirus. The lockdown affected businesses, corporates, and individuals who recorded a decline in their top line and bottom line. Hence, most businesses have had to retrench and furlough some staff. Despite, various attempts by governments of different economies to help businesses stay afloat and reduce unemployment e.g., the UK's job retention scheme and 'eat out to help out' scheme, there was still a considerable increase in the unemployment rate when compared to the previous year.

At the start of the year in January 2020, the United States unemployment rate stood at 3.6%, Canada 5.5%, Germany 3.2%, Japan 2.4%, UK 3.9%, and Australia 5.3%. All the advanced economies reviewed recorded an increase in their unemployment rate in October when compared to the rate recorded in January e.g., the US recorded an increase in the unemployment rate to 6.9%, Canada 8.9%, Germany 4.5%, Japan 3.1%, UK 4.9%, and Australia 7% (*see Chart 10*).

Chart 10: ***Advanced Economies Unemployment 2020 (%)***

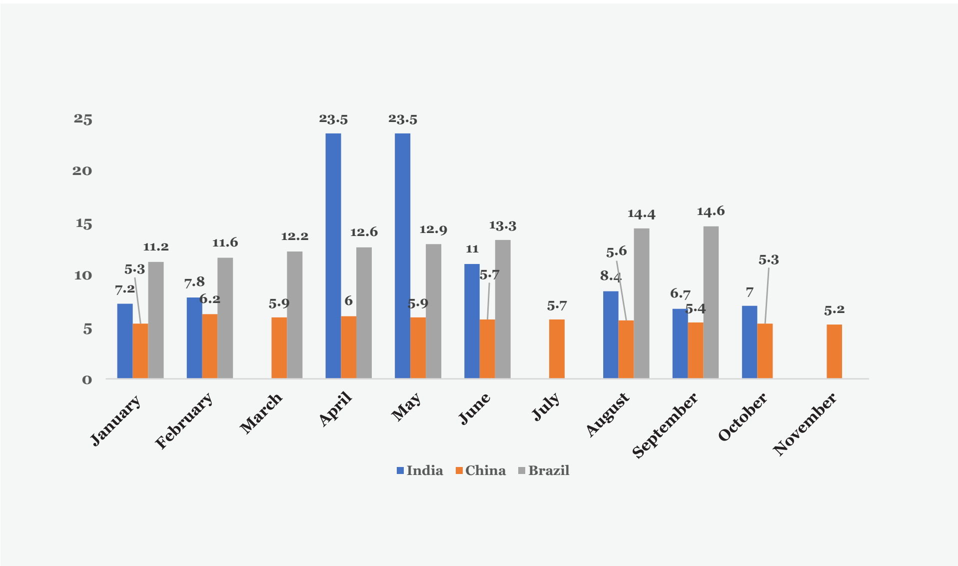


Source: Trading Economics, Proshare Research

Emerging Economies

Some emerging economies recorded an unprecedented rise in the unemployment rate due to the COVID-19 pandemic e.g., India's unemployment rate rose from 7.2% in January 2020 to 23.5% in May 2020 but dipped to 7% in October 2020. Furthermore, Brazil also recorded a rise in unemployment from 11.2% in January 2020 to 14.6% in September 2020 (*see Chart 11*).

Chart 11: ***Emerging Economies Unemployment Rate (%)***



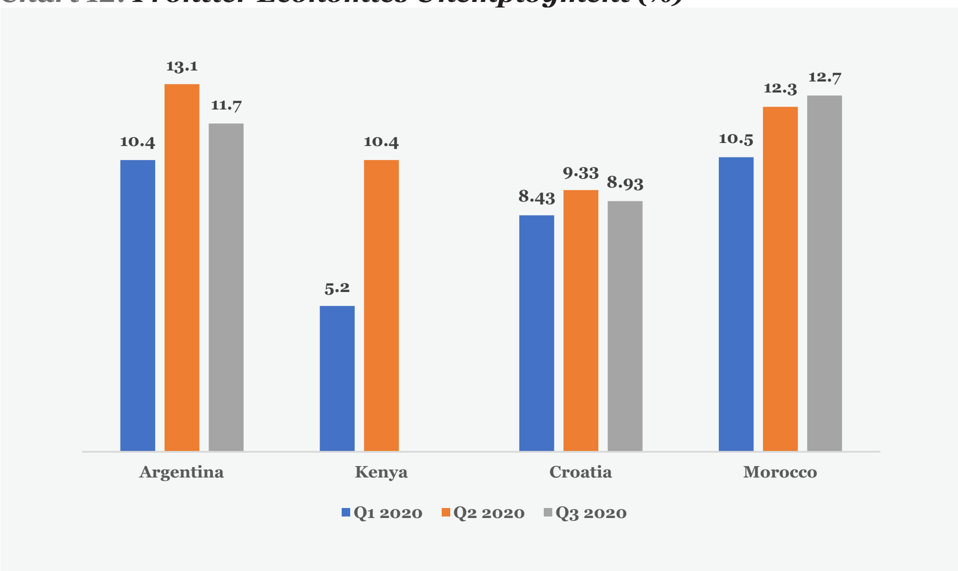
Source: Trading Economics, Proshare Research

Frontier Economies

Most of the frontier economies recorded an increase in unemployment rate which could be attributed to the impact of the COVID-19 pandemic. For example, Argentina's unemployment rate rose from 10.4% in Q1 2020 to 13.1% in Q2 2020, Kenya's unemployment rate rose from 5.2% in Q1 2020 to 10.4% in Q2 2020.

As businesses began re-opening so did the level of unemployment in these various economies reduce e.g., Argentina's unemployment declined from 13.1% in Q2 2020 to 11.7% in Q3 2020, Croatia's unemployment reduced from 9.33% in Q2 2020 to 8.93% in Q3 2020 (*see Chart 12*).

***Chart 12:* Frontier Economies Unemployment (%)**



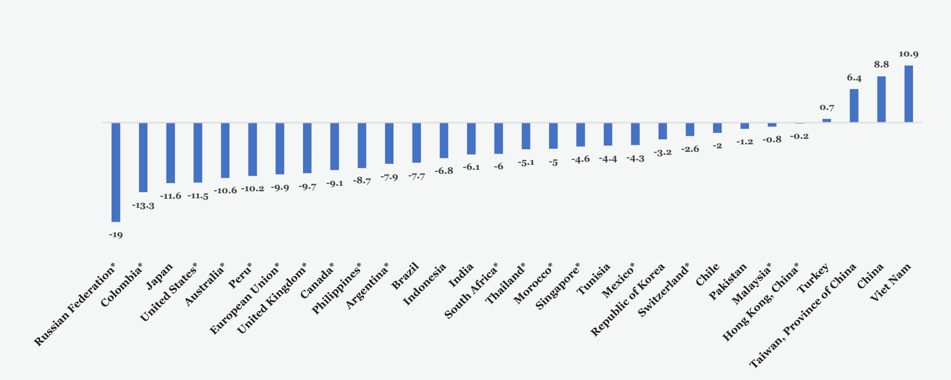
Source: Trading Economics, Proshare Research

Trade

The COVID-19 pandemic dealt a major blow to global trade in 2020. According to UNCTAD, there was a -19% sharp decline in global trade in Q2 2020 when compared to Q2 2019. Prior Q3 trade data suggest that global trade growth would be negative with a decline of about -4.5% Y-o-Y. UNCTAD predicts that global trade would decline by -7% in 2020 given that the trend observed in Q3 lingers in Q4. It puts the lower bound for 2020 at 9% and considers the possibility of a resurgence of the COVID-19 pandemic during coming months and the prospect of a deteriorating policy environment, with sudden increases in trade-restrictive policies e.g., China imposition of anti-dumping levies on Australia's wine, etc (*see Chart 13*).

Chart 13: Export Growth in Q3 2020
Relative to Q3 2019 (%)

Chart 13: Export Growth in Q3 2020 Relative to Q3 2019 (%)



NB (*) denotes estimates

Source: UNCTAD, Proshare Research

Major advanced economies recorded a decline in trade in 2020 because of the COVID-19 pandemic. Economies of US, Japan, and EU recorded a consistent decline in their export in 2020, their most recent trade statistics as of August 2020 reveals that United States export declined by -15%, Japan -15%, South Korea -10%, and EU -9%.

On the other hand, China recorded improvements in its export in September 2020 by +10%. The growth in China's export could be attributed to the strong demand for goods needed to ride out the effects of the pandemic on the economy e.g., there was a strong overseas demand for personal protective equipment (PPE), and electronics products for working from home. Furthermore, booming sales of fridges, toasters, and microwaves to households across the world helped propel China's growth in export in 2020 (*see Illustration 1*).

Illustration 1: Trade Trends of Major Trading Economies, January-September 2020

TRADE TRENDS OF MAJOR TRADING ECONOMIES, JANUARY-SEPTEMBER 2020

Imports	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Brazil	↓1%	↑5%	↑11%	↓15%	↓11%	↓20%	↓35%	↓29%	↓25%
Russian Federation	↑4%	↑2%	↓2%	↓20%	↓13%	↓4%	↓13%	↓11%	
India	0%	↑4%	↓28%	↓60%	↓51%	↓48%	↓30%	↓26%	↓20%
China	↓7%	↓10%	↓1%	↓14%	↓17%	↑3%	↓1%	↓2%	↑13%
South Africa	↓3%	↓4%	↓17%	↓38%	↓40%	↓43%	↓39%	↓31%	
United States	↓4%	↓4%	↓7%	↓21%	↓25%	↓13%	↓8%	↓5%	

Imports	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Japan	↓5%	↓13%	↓ 1%	↓ 3%	↓25%	↓14%	↓21%	↓21%	
Republic of Korea	↓5%	↑ 1%	↓ 0%	↓16%	↓21%	↓11%	↓12%	↓16%	↑ 1%
European Union	↓3%	↓ 7%	↓12%	↓26%	↓28%	↓12%	↓15%	↓10%	

Exports	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Brazil	↓19%	↓ 1%	↑ 5%	↓ 9%	↓15%	↓ 5%	↓ 3%	↓11%	↓ 9%
Russian Federation	↓2%	↓18%	↓20%	↓33%	↓36%	↓26%	↓28%	↓32%	
India	1%	↑ 4%	↓34%	↓61%	↓35%	↓12%	↓10%	↓13%	↑ 4%
China	↓22%	↓10%	↓ 7%	↑ 3%	↓ 3%	↑ 1%	↑ 7%	↑ 9%	↑ 10%
South Africa	↑10%	↑ 6%	↓ 1%	↓61%	↓28%	↓ 6%	↓14%	↓ 3%	
United States	↓0%	↑ 2%	↓ 9%	↓29%	↓36%	↓24%	↓15%	↓15%	
Japan	↓4%	0%	↓ 8%	↓19%	↓27%	↓25%	↓18%	↓15%	
Republic of Korea	↓7%	↑ 4%	↓ 2%	↓26%	↓24%	↓11%	↓ 7%	↓10%	↑ 8%
European Union	↓2%	↓ 3%	↓ 8%	↓31%	↓32%	↓ 9%	↓10%	↓ 9%	

Source: UNCTAD calculations based on national statistics.
Year-over-year growth rates, in $US. Data excludes intra-EU trade.

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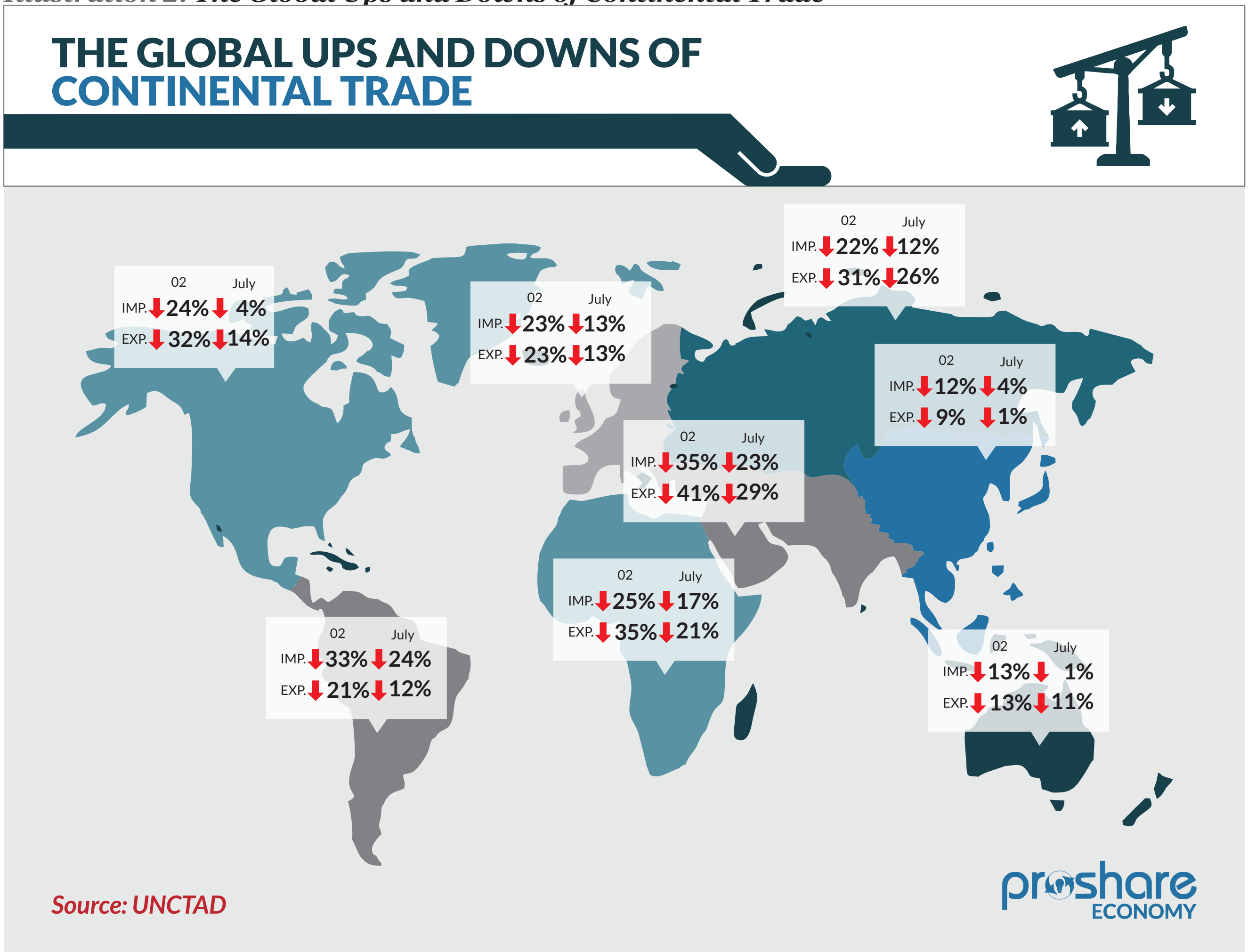
Consequently, there was also a sharp decline in regional trades in 2020. Most regions around the world recorded a decline in trade in 2020, however, East Asia appears to have fared relatively better than in other regions. Conversely, the steepest decline in trade was recorded in the West and South Asia region, where imports declined by -35%, and exports -41% (*see Illustration 2*).

Illustration 2: The Global Ups and Downs of Continental Trade

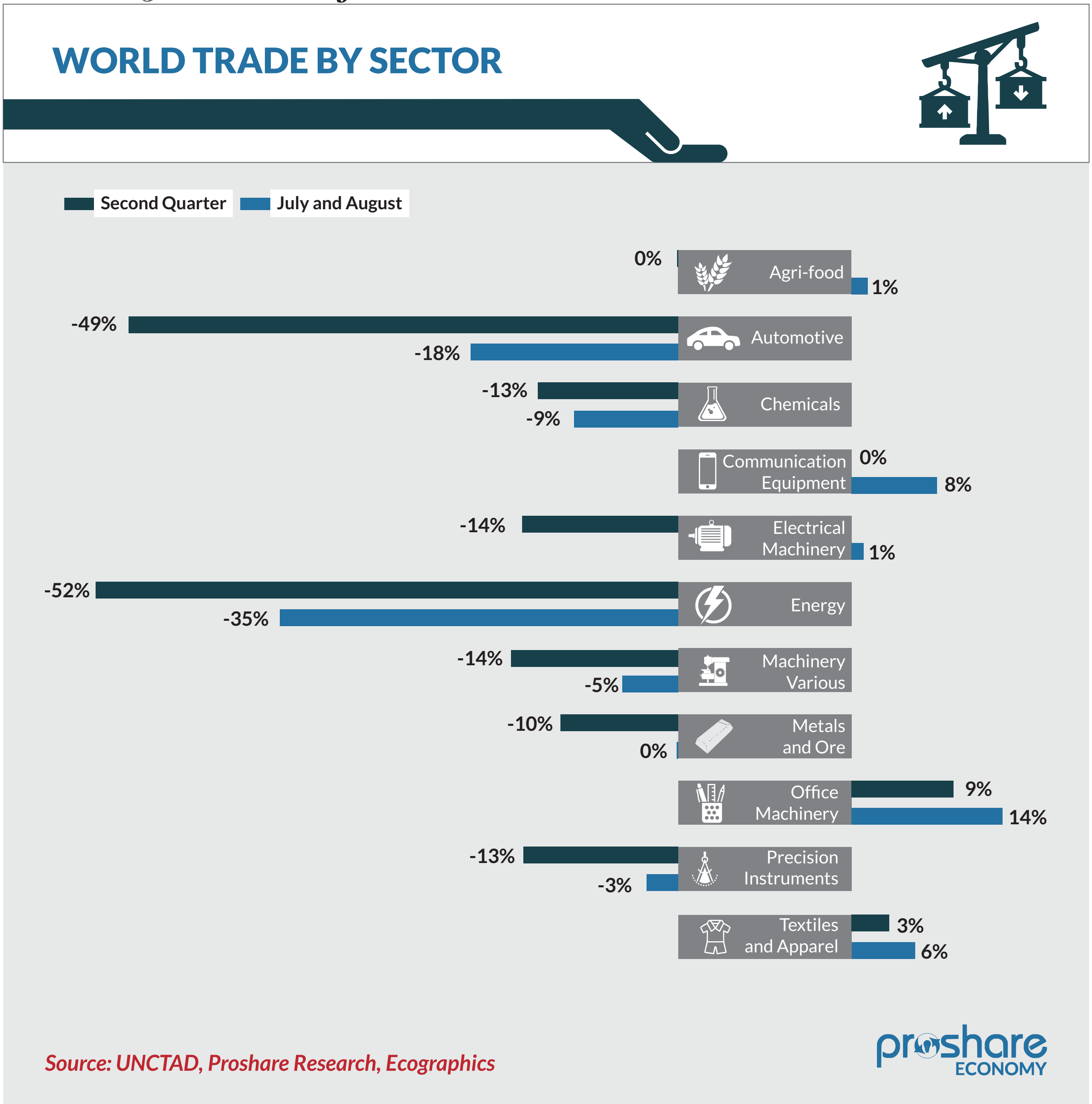
Illustration 2: The Global Ups and Downs of Continental Trade



According to data from UNCTAD, many sectors have been significantly affected by the COVID-19 pandemic. Trade declined significantly in chemicals, machinery, metals & ores, and precision instruments. On the flip side, imports increased in office machinery, and textiles & apparel. The increases in the imports of home office equipment and protective equipment such as masks could be attributed to the need to curb the spread of the COVID-19 pandemic.

Data as of July and August 2020 reveals that there was an increase in trade in some certain sectors such as office machinery +14%, textiles & apparel +6%, and communication equipment +8% (*see Illustration 3*).

Illustration 3: ***World Trade by Sector***



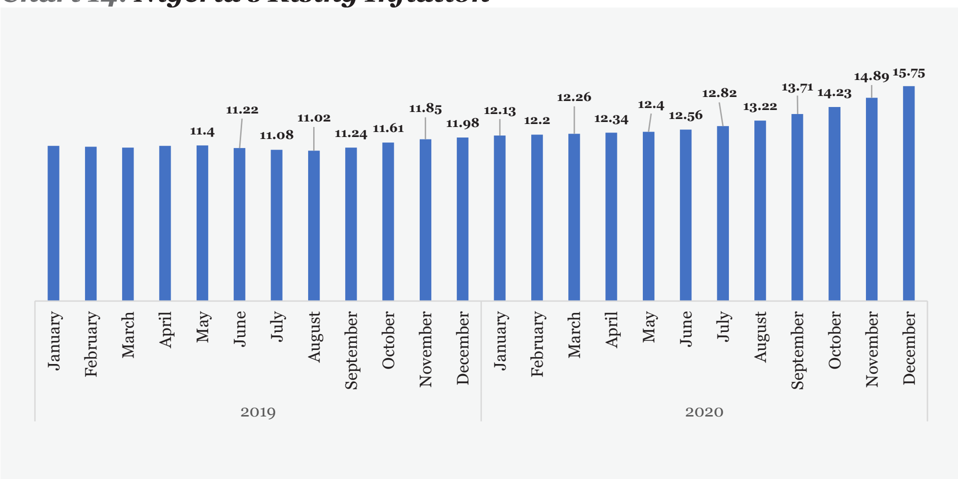
Eyeballing Major Economic Indicators in 2020

Eyeballing Major Economic Indicators in 2020

Inflation

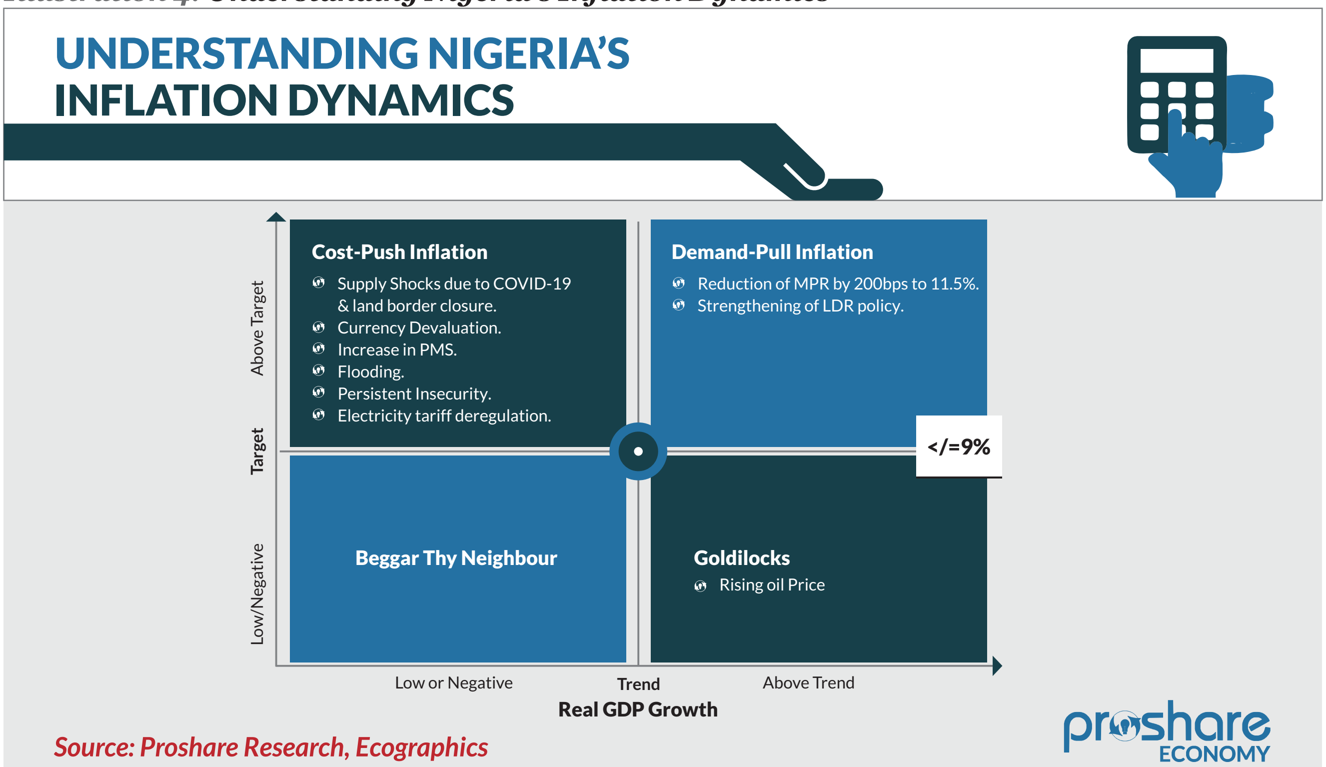
Many factors shaped Nigeria's rising inflation in 2020. Some of the driving factors of the rise in inflation include insecurity, structural rigidities, land border closure, and the COVID-19 pandemic which disrupted both global and domestic supply chains. The rise in insecurity led to a decline in farm produce as farmers were discouraged from going to the farm. Nigeria's inflation rose consistently in the year 2020 from 12.13% in January to 15.75% in November (*see Chart 14*).

Chart 14: Nigeria's Rising Inflation



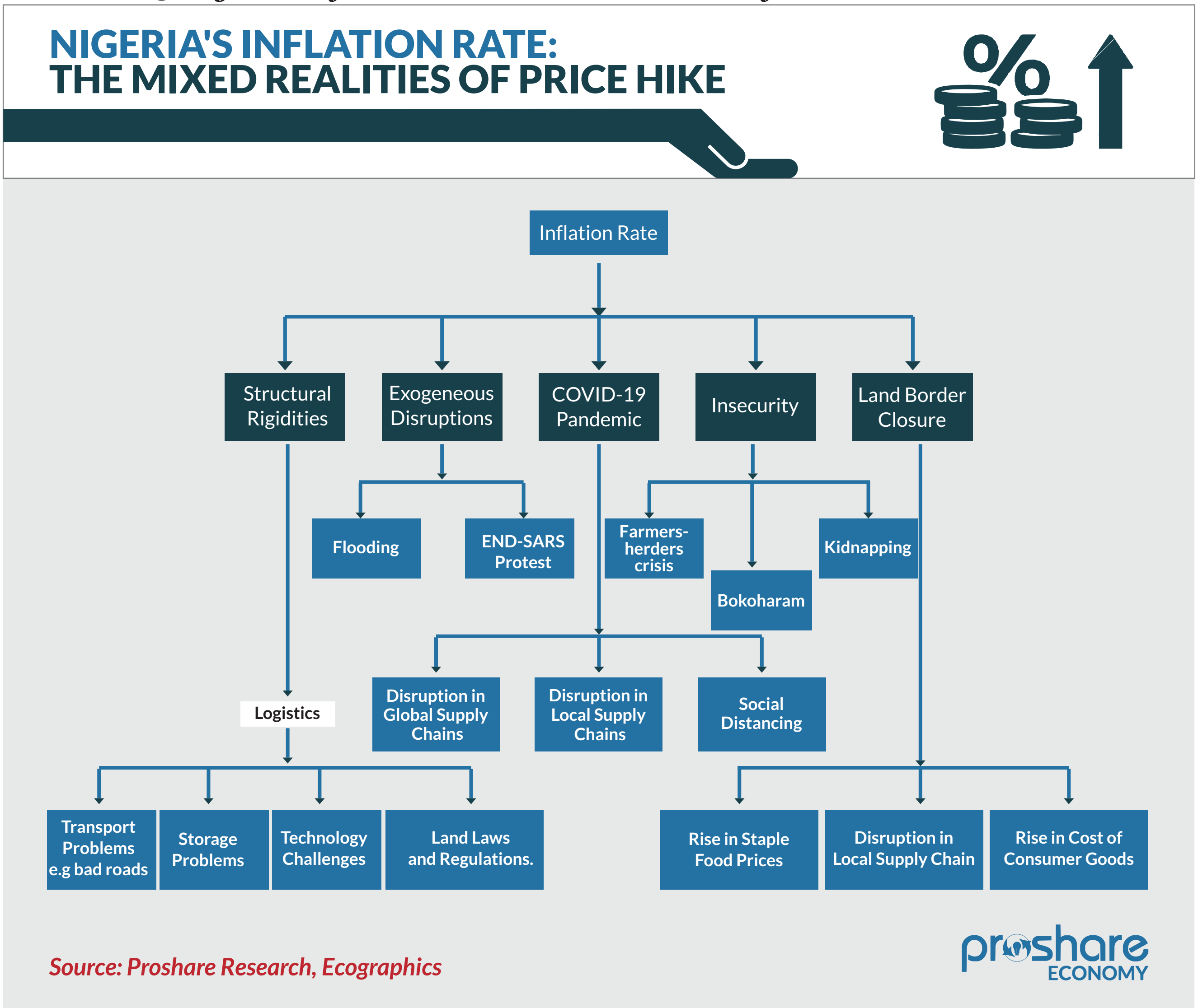
Source: NBS, Proshare Research

Illustration 4: Understanding Nigeria's Inflation Dynamics



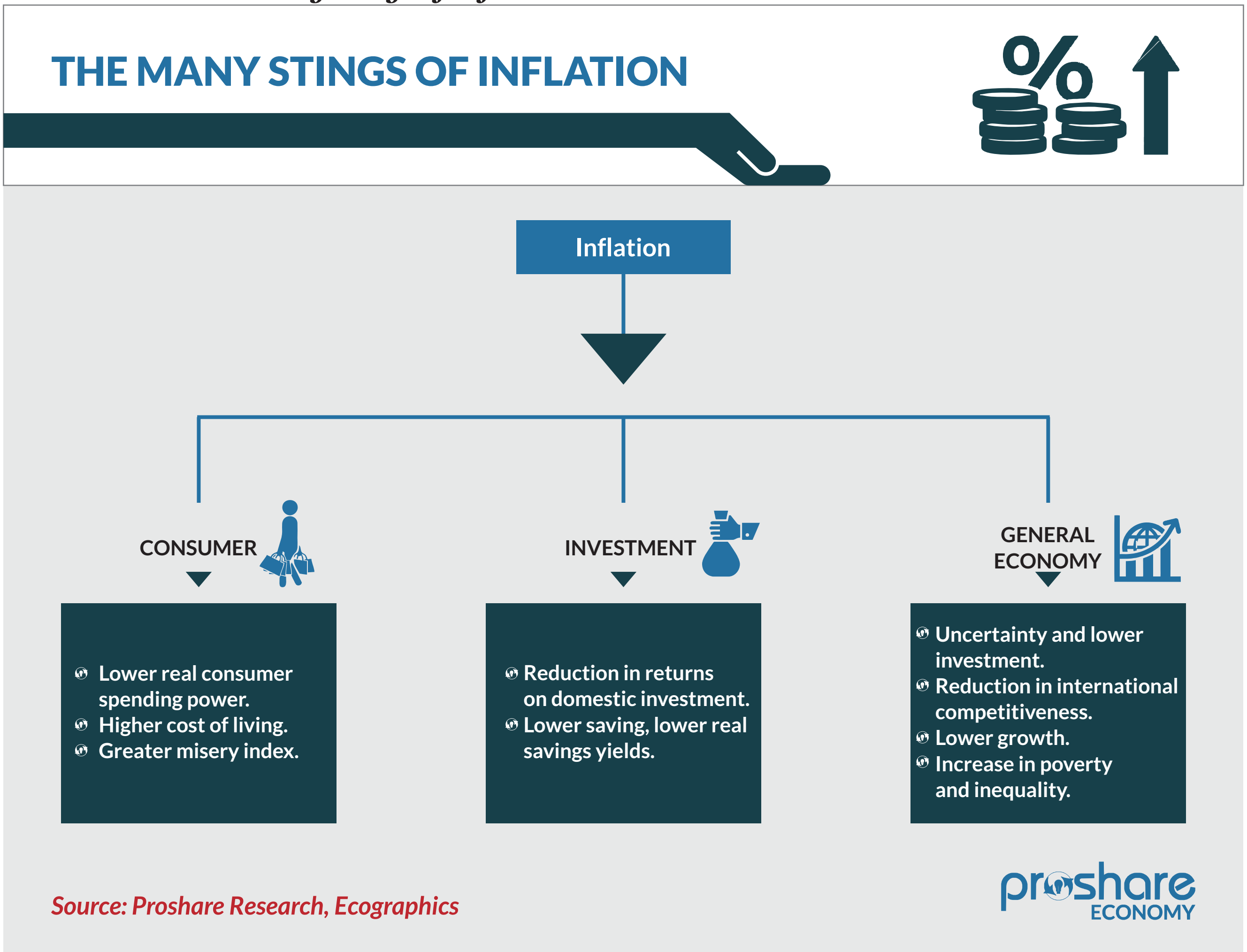
Furthermore, Nigeria's structural deficiencies such as poor transport network, insufficient storage facilities, poor technologies, rigid land laws, and regulations affected its productivity in the year 2020 (*see Illustration 5*).

Illustration 5: ***Nigeria's Inflation Rate: The Mixed Realities of Price Hike***



Some of the many stings of Nigeria's rising inflation include the high cost of living (rise in staple foods, medical services, and transport fare), lower consumer spending, reduction in real returns on domestic investment, uncertainty & lower investment, reduction in international competitiveness, lower growth, and increase in poverty and inequality (*see Illustration 6*).

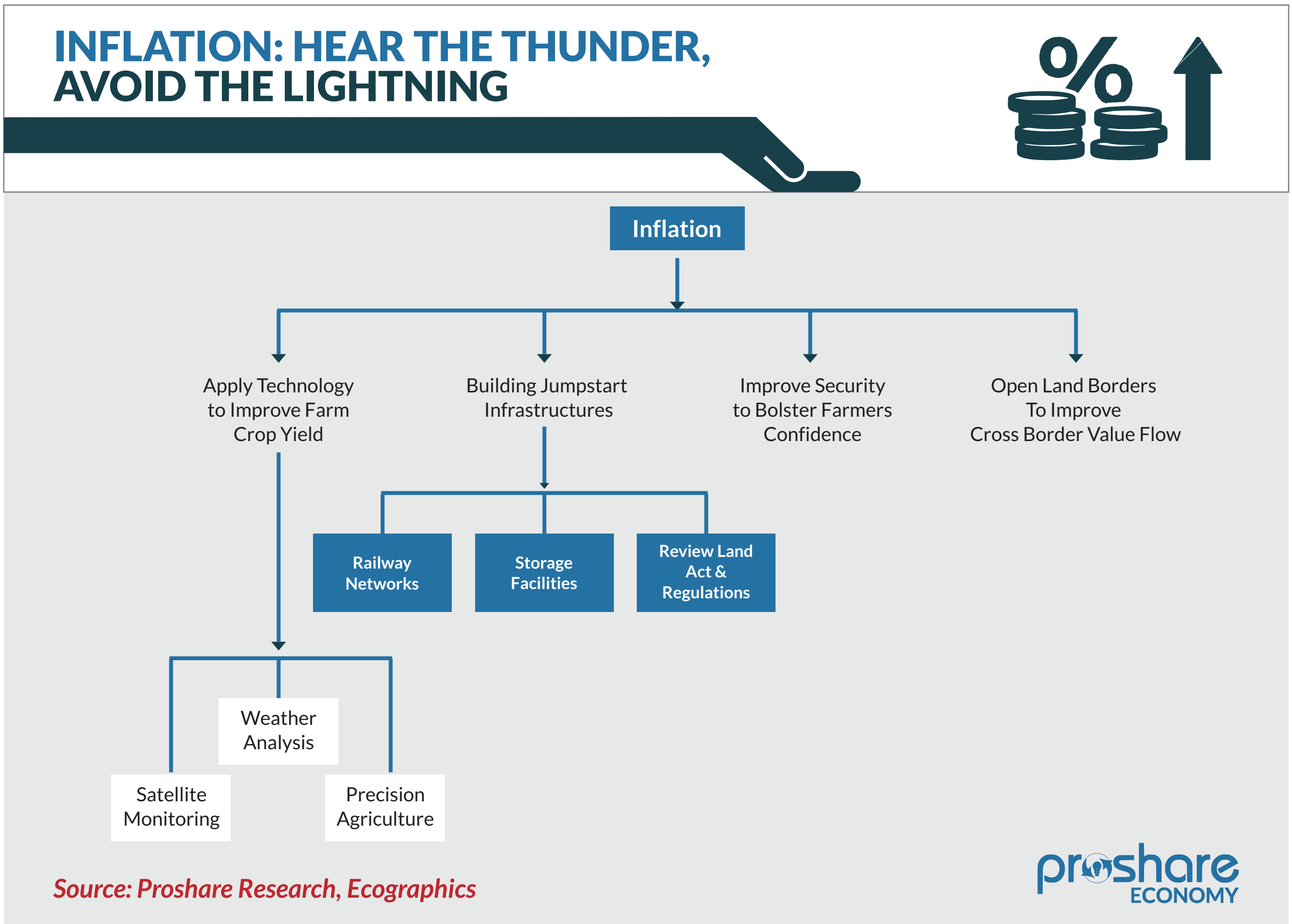
Illustration 6: ***The Many Stings of Inflation***



Reversing the rising trajectory of inflation would require the application of technology to improve farm crop yield i.e., satellite monitoring, weather analysis, precision agriculture, etc. Also, Nigeria's weak infrastructures have been the bane of the decline in the inflation rate, therefore proper railway networks must be constructed, storage facilities provided for farmers, and review of Land Use Act and regulation. The government would need to open the land borders to improve cross-border value flow and provide security to bolster the farmer's confidence in protection when engaging in farming activities (see Illustration 7).

Illustration 7: Inflation: Hear the Thunder, Avoid the Lightning

Illustration 7: ***Inflation: Hear the Thunder, Avoid the Lightning***



Some of the government's policies have also exacerbated the inflation rate in Nigeria i.e., the closure of the border, the devaluation of the currency, service reflective tariffs, and increase in PMS prices (*see Illustration 8*).

Illustration 8: ***Policy Aim at Inflation: Hits, Misses, and Grazings***

POLICY AIM AT INFLATION: HITS, MISSES, AND GRAZINGS

	Policy	Effect on Inflation	Reason
I	CBN Maize Import Ban	Rise	Knock-on effects on poultry feeds.
II	CBN devaluation of exchange rate from (N360/$1 to N380/$1) – August 2020 (N307/$1 to N360/$1) – March 2020	Rise	Rise in cost of importation

	Policy	Effect on Inflation	Reason
III	Reduction in MPR to 11.5%.	Minimal/No effect	Nigeria's inflation mainly driven by structural rigidities
IV	Service reflective tariffs and increase in PMS prices.	Rise	Cost of operation
V	Land border closure.	Rise	Decline in available staple foods and equipment.
VI	CBN economic stimulus to cushion the economy from adverse effect of COVID-19 e.g N1trn in loans to boost local manufacturing and production, one-year extension of moratorium on principal repayments on CBN facilities.	Minimal/No effect	Structural rigidities and continuous exogeneous shocks e.g., End SARS protest and COVID-19 pandemic.

Source: Proshare Research, Ecographics

Battling Africa Price Hikes: Entering A Guerrilla War

Nigeria recorded the highest inflation rate in 2020 when compared with some of its other African economy counterparts. Furthermore, it recorded a high increase percentage point change in the inflation rate of 2.10% when compared to some of its peers such as Egypt, Kenya, Rwanda, South Africa, and Ghana (*see Table 7*).

Table 7: The Inflation Bogey and African Headaches

THE INFLATION BOGEY AND AFRICAN HEADACHES

	Country	January	Latest	Percentage Point Change (%)
1	Egypt	7.20%	4.50%	-2.70%
2	Kenya	5.78%	5.46%	-0.32%
3	Nigeria	12.13%	14.23%	2.10%
4	Rwanda	11.50%	9.30%	-2.20%
5	South Africa	4.50%	3.30%	-1.20%
6	Ghana	7.80%	10.10%	2.30%

Source: Proshare Research, Ecographics

High levels of inflation discourage investment inflow into a country as it means that real investment yields have declined. Nigeria's high inflation rate could lead investors to invest in other African nations with a low inflation rate and high yields on investment.

Transitioning Scenarios 2021: The Bad, The Good, The Unknown

Nigeria's inflation rate trajectory in 2021 is hinged on various policies such as land border closure, devaluation of the currency, insecurities, infrastructural facilities, etc. An opened land border, improved security, investment in infrastructural facilities, and application of technology in agriculture would help reduce the inflation rate. On the other hand, deteriorating infrastructural facilities, a closed border, and continuous fear of attack by farmers would further exacerbate inflation rate pressures (*see Table 8*).

Table 8: Transitioning Scenarios 2021: The Bad, The Good, The Unknown

TRANSITIONING SCENARIOS 2021:
THE BAD, THE GOOD, THE UNKNOWN

	Policies	Worst Case	Best Case	Neutral
1	Land Border Closure	Remains Shut	Opens	Gradual Re-opening
2	Devaluation	Steep	Less Steep	Managed Float
3	Insecurity	Worsens	Improves	Unchanged
4	AFCFTA Operational	Hiccups in Full Implementation	Fully Implemented	Implemented in Phases
5	COVID-19	Global and Domestic Spread Worsens	Vaccine Distribution quickened both domestically and globally	U-shaped recovery
6	Infrastructural Facilities Investment	Existing Infrastructures Deteriorate	Increase in Investment in Storage, Transport e.t.c.	Unchanged

Source: Proshare Research, Ecographics

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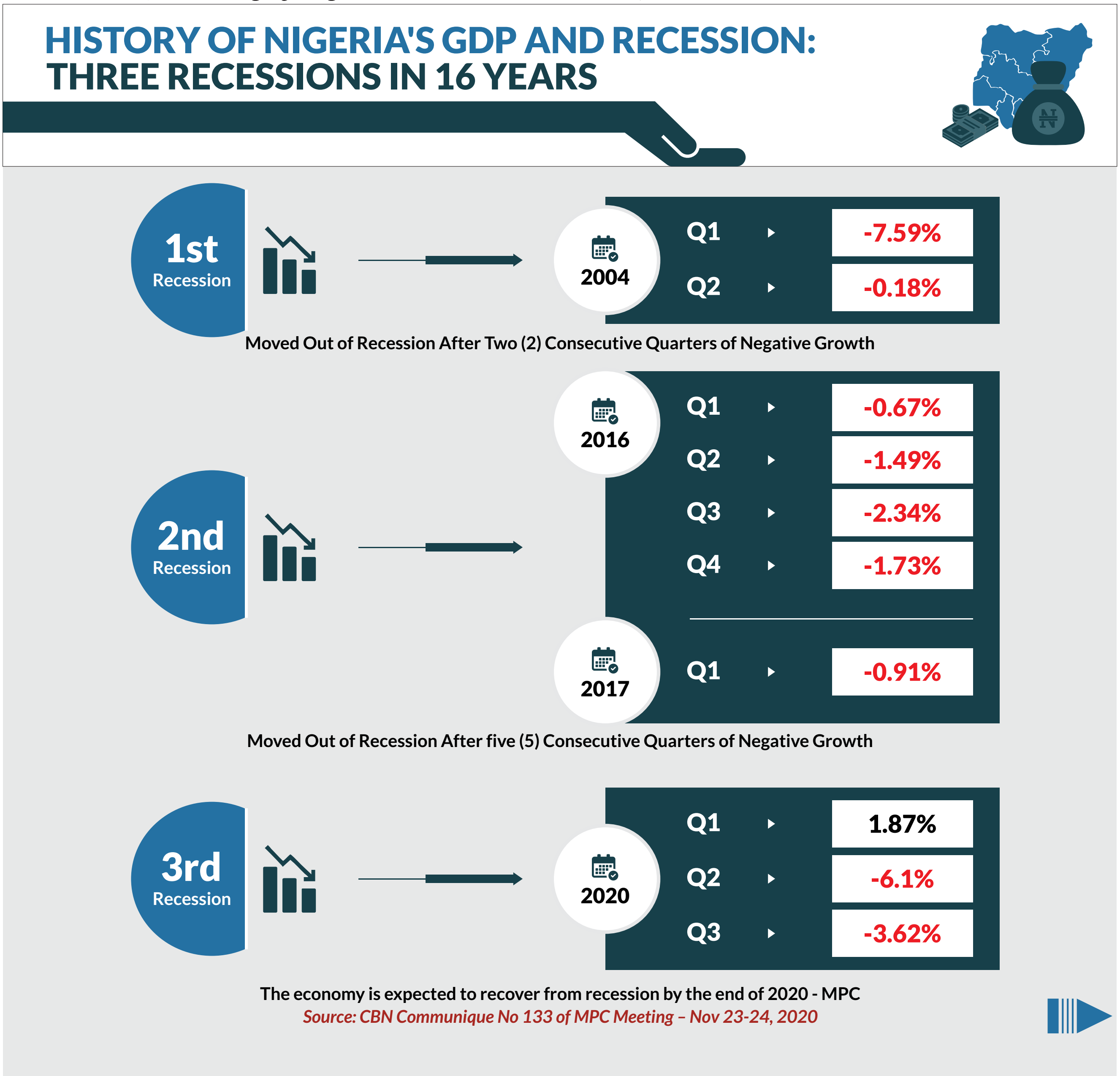
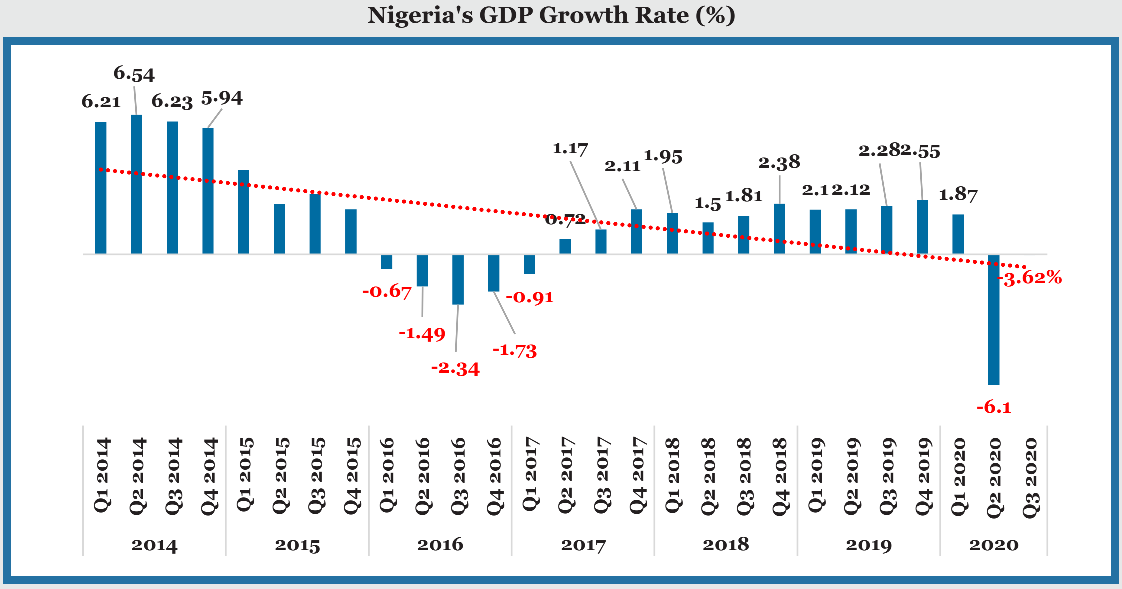
GDP

Not many people fancy a bungee jump particularly policymakers already troubled by economic headwinds, but with Nigeria's recent GDP figures for Q3 2020 reversing from -6.10% in Q2 2020 to -3.62%, the mild drop in the aggregate value of goods produced in the country may have a pleasant side after all.

As the COVID-19 pandemic continues to hit hard with uncertainty around international crude oil prices, Nigeria's domestic economy slipped into its second recession in five years. The first recession between 2016 and 2017 was the consequence of a global financial meltdown but the recent recession has been dragged up by a double whammy of a global virus pandemic and a sharp drop in international oil prices. The recent tumble in gross domestic output has made growth rates of between 6.21% and 5.94% that characterized 2014 look like fairy tales from another age (*see Illustration 9*).

Illustration 9: ***History of Nigeria's GDP and Recession; Three Recessions in 16 Years***





Source: NBS, FXEmpire, Proshare Research, Ecographics

The recent decline in the rate of contraction could be tied to the easing of restrictions on businesses, the reopening of international and domestic travels, and a resumption of wholesale and retail trading activities. The shift in the economic needle in the last three months reflects an expected rebound in businesses but still carries the threat of a pandemic-induced reversal accompanied by a potential fall in oil demand and prices (*see Illustration 10*).

***Illustration 10:* Understanding the Economy; Beyond the Numbers**

Source: Proshare Research, Ecographics

In Q3 2020, some sectors recorded improvements in their growth while some other sectors recorded worsening contraction when compared with the previous quarter i.e., the contraction in the mining & quarrying sector worsened from -6.6% in Q2 2020 to -13.22% in Q3 2020. While the level of contraction in the manufacturing sector declined from -8.78% in Q2 2020 to -1.51% in Q3 2020. On the other hand, there was a rebound in the construction sector as it recorded a growth of +2.84% in Q3 2020 from a contraction of -31.77% in Q2 2020 (*see Table 9*).

Table 9: ***Sectors Real GDP Growth (%)***

SECTORS REAL GDP GROWTH (%)

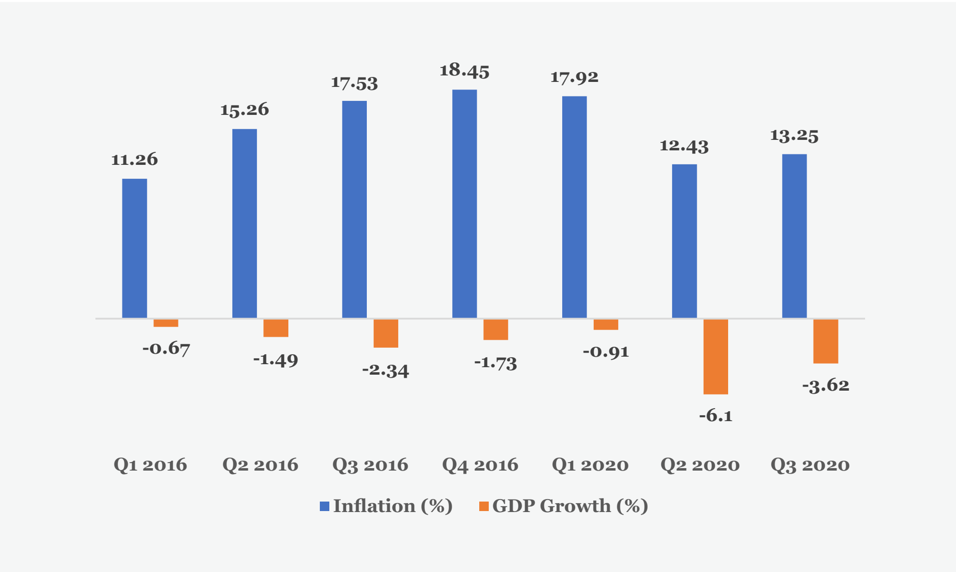
Sectors	Q1 2020	Q2 2020	Q3 2020
Agricultural	2.2	1.58	1.39
Mining & Quarrying	4.58	-6.6	-13.22
Manufacturing	0.43	-8.78	-1.51
Electricity, gas stream and air condition supply	-2.31	-3	-3.66
Water Supply	-0.18	5.71	7.1
Construction	1.69	-31.77	2.84
Trade	-2.82	-16.59	-12.12
Accommodation	-2.99	-40.19	-22.61
Transportation & Storage	2.82	-49.23	-42.98
Information & Communication	9.99	15.09	14.56
Arts, Entertainment & Recreation	1.53	-8.93	-4.67
Financial and Insurance	20.79	18.49	3.21
Real Estate	-4.75	-21.99	-13.4
Professional	-0.39	-15.41	-10.31
Administrative	-1.9	-2.39	-1.21
Public Admin	-8.72	2.02	3.58
Education	0.69	-24.12	-20.74
Human Health	1.06	1.89	2.82
Other Services	1.06	-15.07	-7.53

Source: NBS, Proshare Research, Ecographics

Avoiding Déjà vu

In Q3 2020, Nigeria recorded its second recession in five years, and the trajectory follows a pattern like the last recession which saw GDP slump in four quarters in 2016. Accompanying the contraction was a rise in inflation rate as GDP contracted by -1.49% in Q2 2016 while the inflation rose by +15.26% (*see Chart 15*).

Chart 15: Understanding Nigeria's Recessionary Period



Source: NBS, Proshare Research

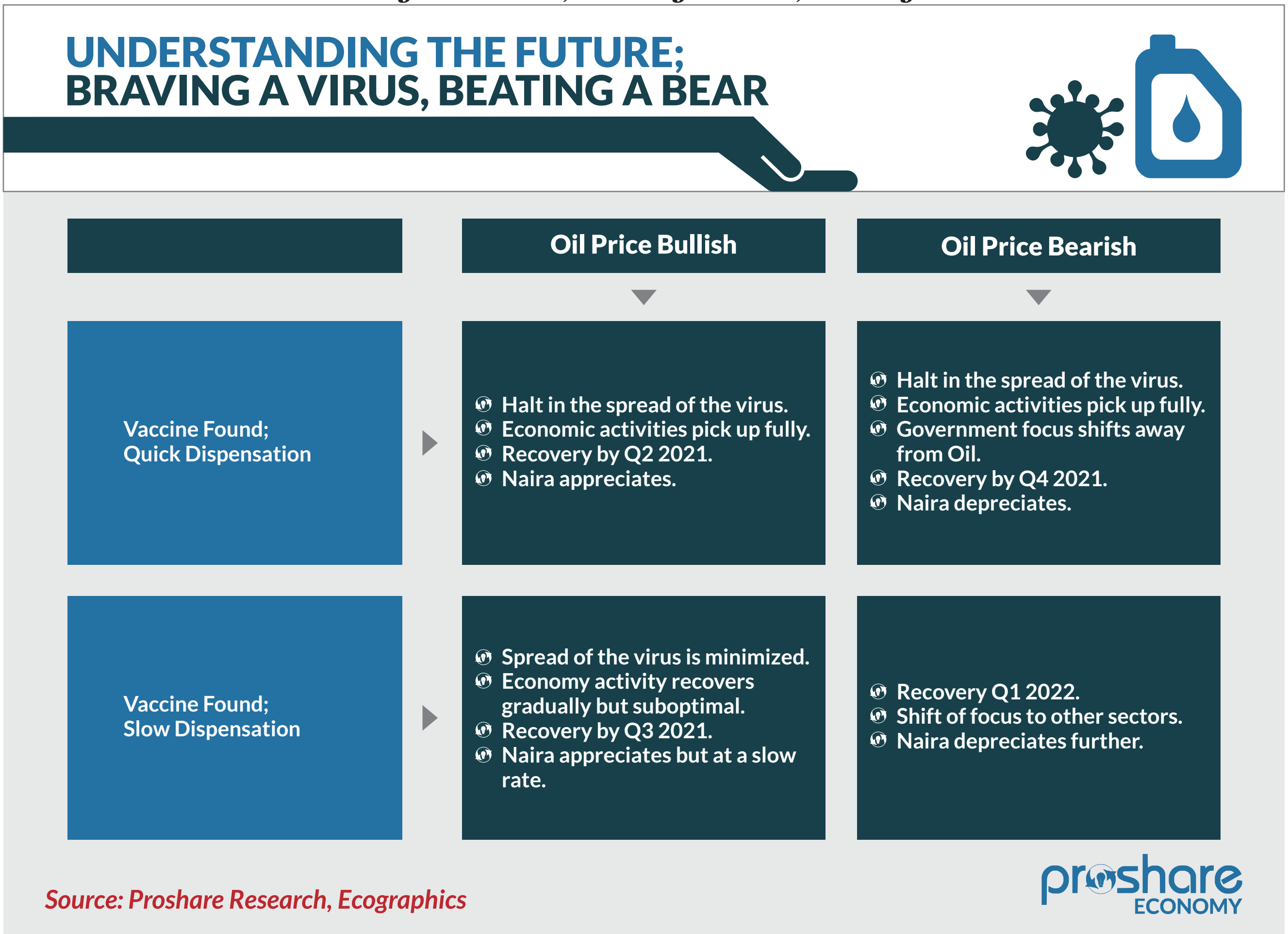
The trend appears the same for the current recession with GDP contracting by -3.62% in Q3 2020 while headline inflation was +13.25%. The contraction in Nigeria's GDP coinciding with rising inflation reflects the structural defects in the Nigerian economy.

Analysts note that Nigeria's recession in 2016 was triggered by the fall in international oil price while the recent recession was caused by something different. The 2020 recession has been attributed to the coronavirus which was worsened by a shocking decline in international crude oil prices and a surge in crude oil supply as Russia and Saudi Arabia opted for a beggar-thy-neighbor trade strategy in Q1 2020.

When is a Recovery Expected?

Nigeria's path to recovery may not be far off if the coronavirus pandemic is contained and a vaccine distributed in the early parts of 2021. A "no-new-lockdown" scenario would see real GDP grow by roughly 1% in Q1 2021 based on in-house macroeconomic models, GDP in Q1 2021 could grow between +0.98% and +1.3% depending on the size of fiscal policy stimulus in the first quarter. The recent -3.561% indicates a reversal in fortunes from the previous Q2 growth rate of -6.10%. Following the recommendations by the Lagos Chamber of Commerce and Industry (LCCI), sustained recovery would require a realignment of national priorities with a renewed focus on infrastructure and industrialization as well as increased support for Small and Medium Enterprises (SMEs) (*see Illustration 11*).

Illustration 11: ***Understanding the Future; Braving A Virus, Beating A Bear***



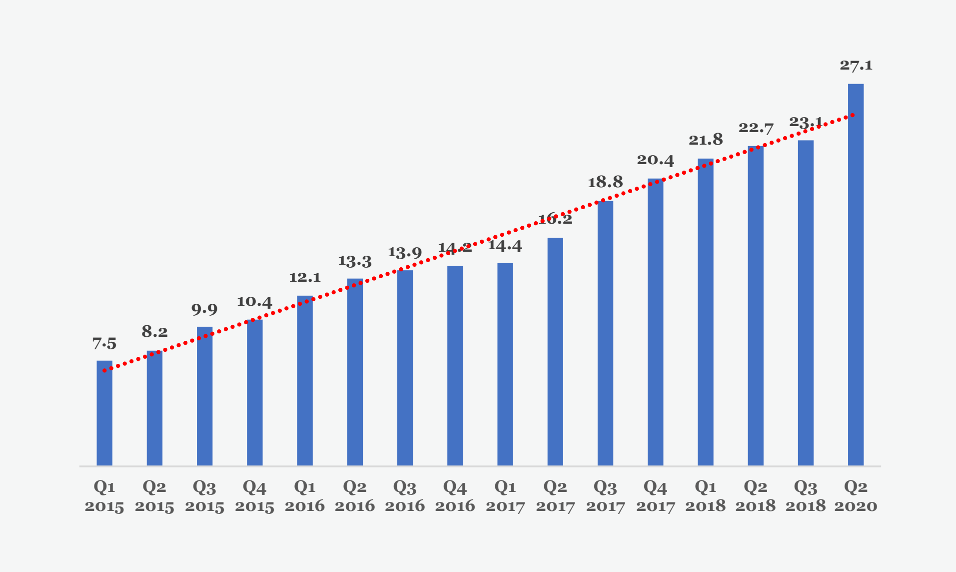
Unemployment

Recent unemployment and underemployment data released by the National Bureau of Statistics (NBS) indicates that Nigeria's unemployment situation has worsened between Q3 2018 and Q2 2020. Nigeria's unemployment rate rose from 23.1% in Q3 2018 to 27.1% in Q2 2020, while the underemployment rate rose from 20.1% in Q3 2018 to 28.6% in Q2 2020. The rise in the number of jobless Nigerians was expected but places additional pressure on Nigeria's fiscal and monetary authorities to engineer faster growth between 2020 and 2021.

It should be noted that 2,736,076 persons or 3.4% of the local labour force were kicked out of jobs during the period but such individuals may have had workplaces to return to after the coronavirus lockdown. The combination of unemployment and underemployment rate for Q2 2020 was 55.7% (*see Chart 16*).

Chart 16: Nigeria's Unemployment Rate (%)

***Chart 16:* Nigeria's Unemployment Rate (%)**



Source: NBS, Proshare Research

Before the release of NBS's report, foreign and local analysts had predicted that Nigeria's unemployment rate would balloon to about 35% given the slow growth of the economy (GDP growth was 1.87% in Q1 2020 as against 2.1% in Q1 2019), the looming recession, and the adverse effect of the coronavirus which ate deep into the healthcare system and the nation's treasury. Although the unemployment rate announced by NBS for Q2 2020 was 27.1%, analysts fear that the number may not be a true reflection of the employment challenge in the country.

To tackle similar unemployment problems, governments around the world embarked on various fiscal measures to ease the burden of the coronavirus on citizens. These measures include unemployment benefits, job retention schemes, grants to MSMEs, etc. Nigeria's government in July 2020 approved the creation of a N75bn Nigerian Youth Investment Fund (NYIF) to support enterprise among 68 million young Nigerian between the ages of 18 and 35. The Federal Government also announced plans to initiate an N2trn stimulus package and survival fund for Micro Small and Medium Enterprises (MSMEs) to stay afloat during the COVID 19 crisis (*see Table 10*).

Table 10: Current Policies Aimed at Reducing the Unemployment Rate

Table 10: ***Current Policies Aimed at Reducing the Unemployment Rate***

CURRENT POLICIES AIMED AT REDUCING THE UNEMPLOYMENT RATE

Policies	Target	Strategy
Nigeria Economic Sustainability Plan	• 5 million jobs through agriculture and food security programmes. • 1.8 million jobs through the Mass Housing Strategy. • 250,000 jobs through the Solar Power Strategy. • 774,000 jobs through the National Public Works Programme. • 1 million jobs through outsourcing services in the technology sector. Safeguard 300,000 jobs in 100,000 • MSMEs through the Guaranteed Take Off Scheme. • Sustain 500,000 jobs in 50,000 SMEs through the SME Survival Fund. • Create 296,000 through road construction and rehabilitation by FERMA.	• Retain or create jobs using labour intensive methods in key areas like agriculture, facility maintenance, housing, and direct labour interventions. • Promote manufacturing and local production at all levels and advocate the use of Made-in-Nigeria goods and services, as a way of creating job opportunities.
N-power	Create 600,000 new jobs	Entrepreneurship
National Electronic Labour Exchange (NELEX)		Improve occupational and geographical mobility of labour.
Public Special Works Programme	Employ 774,000 jobs for three months by employ 1,000 artisans and unskilled workers from each of the 774 local government areas.	

Source: PWC, Proshare Research, Ecographics

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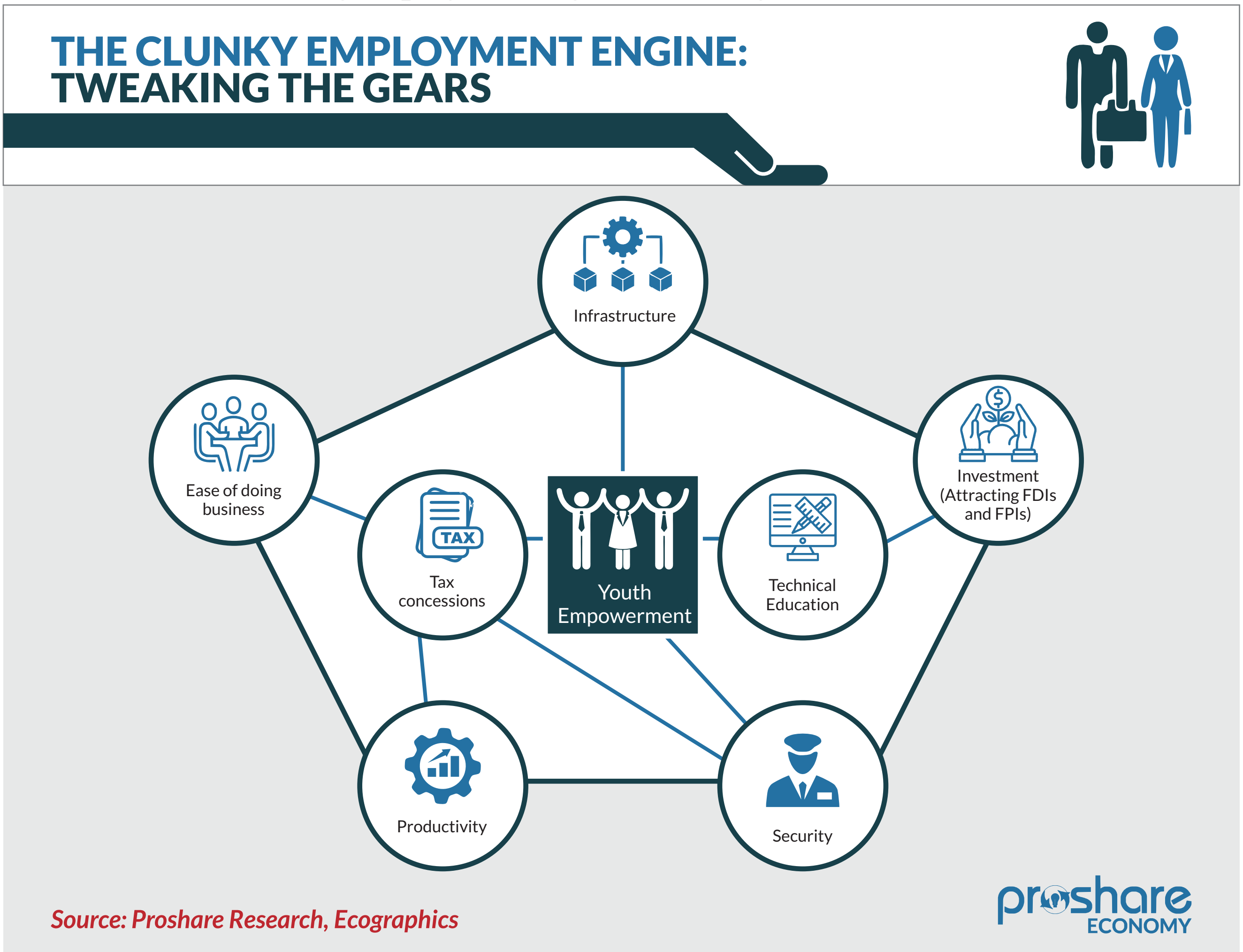
The dominant thought amongst local economists is that if the manufacturing sector is properly developed it can absorb a large number of the labour force. Manufacturing in Nigeria is tedious as manufacturers have to compete with imported products for market share. The disruption in global supply chains because of the coronavirus has further worsened the woes of the sector in Nigeria. Manufacturing firms in Nigeria are plagued with high-cost production resulting from an epileptic power supply, the rising cost of inputs, difficulty in accessing forex, and high transportation costs. Nigeria's dwindling foreign reserves has also been a cause of concern for investors and manufacturers.

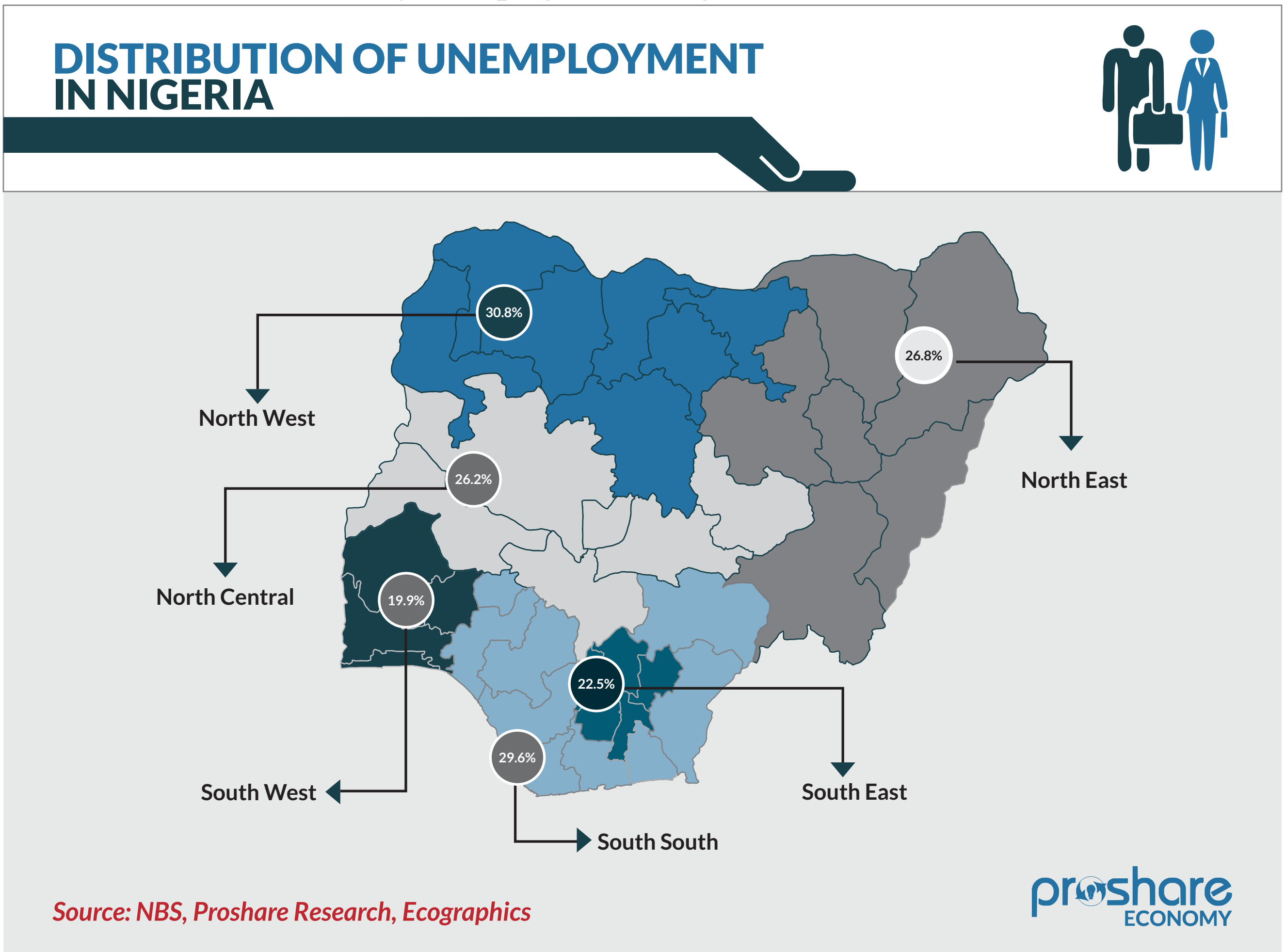
Manufacturers who rely on imported inputs find it difficult and expensive to access FX. The shortage of FX has limited the expansion capacity of firms. Investors have expressed fears of investing in Nigeria as its currency has consistently fallen over the years, investors fear that the true value of their investment would be lost. Nigeria's manufacturing PMI for December stood at 49.6 index point, indicating manufacturing sector contraction which suggests that the sector has suffered from the adverse effect of COVID 19 (*see Illustration 12*).

Illustration 12: The Clunky Employment Engine: Tweaking the Gears



Insecurity in the Northern parts of the country has affected the agriculture sector severely. There has been an increase in the crime rate in the North as banditry, farmers-herders crisis, kidnapping, and terrorism cause fear and panic thereby reducing farm output. The insecurity has hindered the growth of investment in the North hence, the rise in unemployment and underemployment in the region. Investors desire a stable environment for their money and expect adequate protection of lives and property.

Illustration 13: ***Distribution of Unemployment in Nigeria***



Unemployment Lingers Despite Social Investment Programmes

Nigeria's fiscal and monetary authorities have pushed massive expansionary programs to counter the slowing effects of supply chain disruptions and a dip in production caused by COVID 19. Programs such as the proposed employment of 774,000 Nigerians under the Special Public Works Programme of the Federal government scheduled for October, N-power, FarmerMoni, and TraderMoni under the Government Enterprise and Empowerment Programme (GEEP) have been initiated. Though these policies have meant well they have equally raised eyebrows concerning sustainability, equity, and transparency. According to the Ministry of Humanitarian Affairs Disaster Management, and Social Development over five million Nigerians have applied for the third batch of the N-Power program this statement reveals the worrisome state of unemployment in Nigeria.

Nigeria's and its Peers Unemployment Rate

The major African economies are characterized by high levels of unemployment. Amongst the major African economies, the top three economies with high levels of unemployment were Morocco 37.9%, South Africa 30.8%, and Nigeria 27.1%. The high levels of unemployment rate in 2020 were further exacerbated by the COVID-19 pandemic (*see Table 11*).

Illustration 13: ***Distribution of Unemployment in Nigeria***

NIGERIA AND ITS PEERS
UNEMPLOYMENT RATE

Countries	Previous		Latest	
	Quarter	Percent	Quarter	Percent
Morocco	Q2 2020	39.3	Q3 2020	37.9
Egpyt	Q2 2020	9.6	Q3 2020	7.3
Rwanda	Q2 2020	22.1	Q3 2020	16
South Africa	Q2 2020	22.3	Q3 2020	30.8
Kenya	Q1 2020	5.2	Q2 2020	10.4
Nigeria	Q3 2018	23.1	Q2 2020	27.1

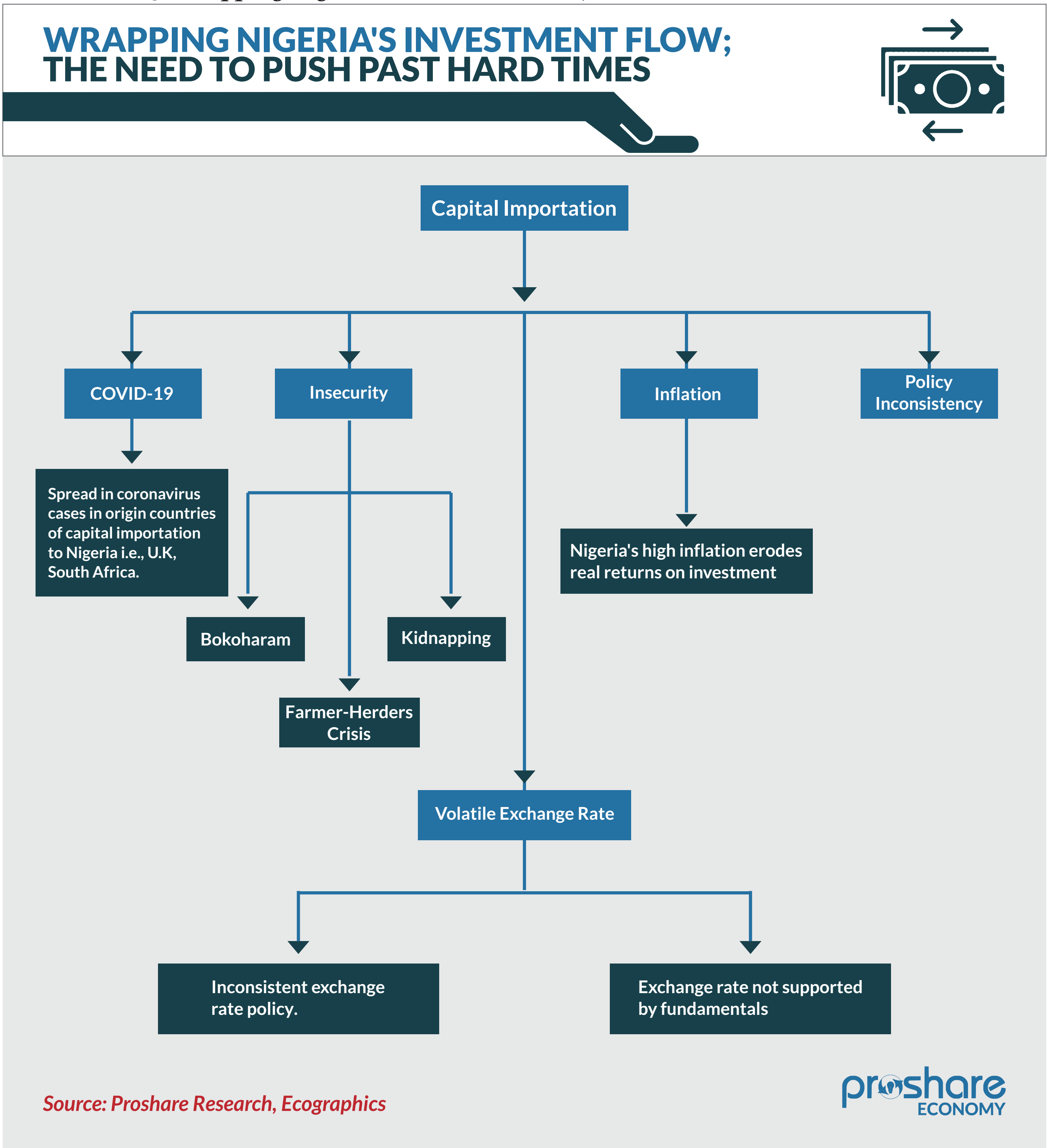
Source: NBS, Proshare Research, Ecographics

Capital Inflow

With the spread of the coronavirus in Nigeria not showing signs of slowing down soon, concerns over foreign and domestic supply chain disruptions, second wave lockdowns, and factory closures have led foreign investors to sit on the fence as they reassess Nigeria as a preferred frontier market (FM) and investment destination. Analysts have noted that the virus bug has bitten down hard on foreign capital inflows in Q3 2020, leaving the domestic money and capital markets in awkward situations (*see Illustration 14*).

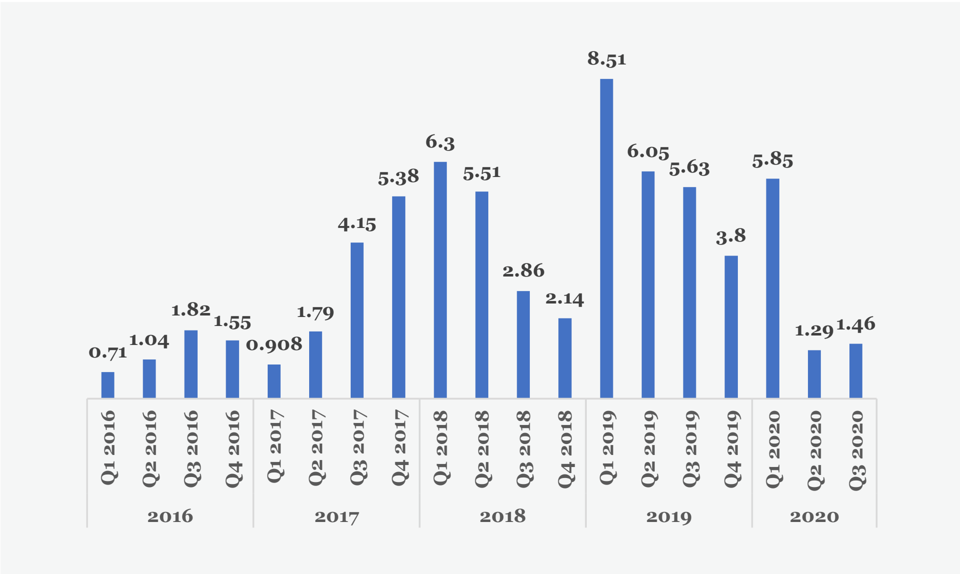
Illustration 14: Wrapping Nigeria's Investment Flow; The Need to Push Past Hard Times

Illustration 14: ***Wrapping Nigeria's Investment Flow; The Need to Push Past Hard Times***



The most recent report released by the National Bureau of Statistics (NBS) shows that capital importation increased by +12.86% (Q-o-Q) in Q3 2020 and by -74.03% (Y-o-Y). The decline in capital importation inflows was evident as the Nigerian economy shrunk by -3.62% in Q3 2020 (*see Chart 17*).

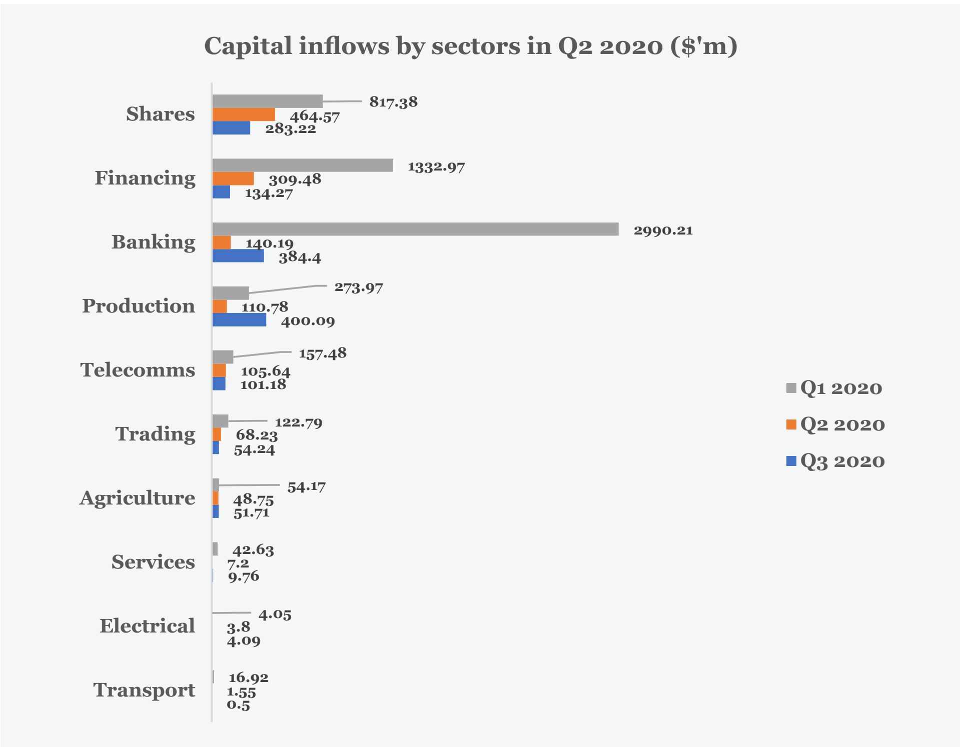
Chart 17: ***Nigeria's Capital Importation ($'bn)***



Source: Proshare Research, NBS

In Q3 2020, some sectors recorded an increase in capital importation while others recorded a decline when compared with the previous quarter. Some of the sectors that recorded improvements in capital inflow in Q3 2020 were banking, production, agriculture, services, and electrical. On the other the following sectors recorded declines they include shares, financing, telecoms, trading and transport. The top five sectors with the highest recorded capital inflows in Q3 2020 were production with capital inflow of $400.09m, banking $384.4m, shares $283.22m, financing $134.27m, and telecoms $101.18m (*see Chart 18*).

Chart 18: ***Capital Inflows by Sectors ($'m)***



Source: Proshare Research, NBS

Fragile Economy Nudges Investors to Alternative Markets

As COVID-19 took a bite out of economic activities and international oil prices, investors pulled back from intended capital commitments as they decided to sit on the fence. The uncertainty in the global economy has since hurt domestic investment flows.

The Nigerian economy has had difficulties reversing the setbacks of a contraction in the 2nd and 3rd quarters of the year 2020. In Q2 and Q3 2020, the economy recorded a contraction in GDP of -6.10% and -3.62% respectively, the domestic unemployment rate rose by +27.10%, foreign reserves declined to $35.54bn, the exchange rate was volatile, and the inflation rate rose to as high as +14.23%.

The downturn in economic outlook has kept both foreign portfolio investment (FPI) and foreign direct investment (FDI) flows low. The country's foreign exchange rate volatility has equally posed a challenge to investors as uncertainty about monetary policy management has proved to be a challenge. The weak outlook for the exchange rate has eroded investor confidence. Hence, some investors have opted to invest in alternative frontier economies such as Ghana, Rwanda, and Egypt.

With the inflation rate representing an unofficial tax on commercial transactions, investors have opted for lower inflation environments in other frontier markets. A higher domestic inflation rate may imply a decline in real domestic yields.

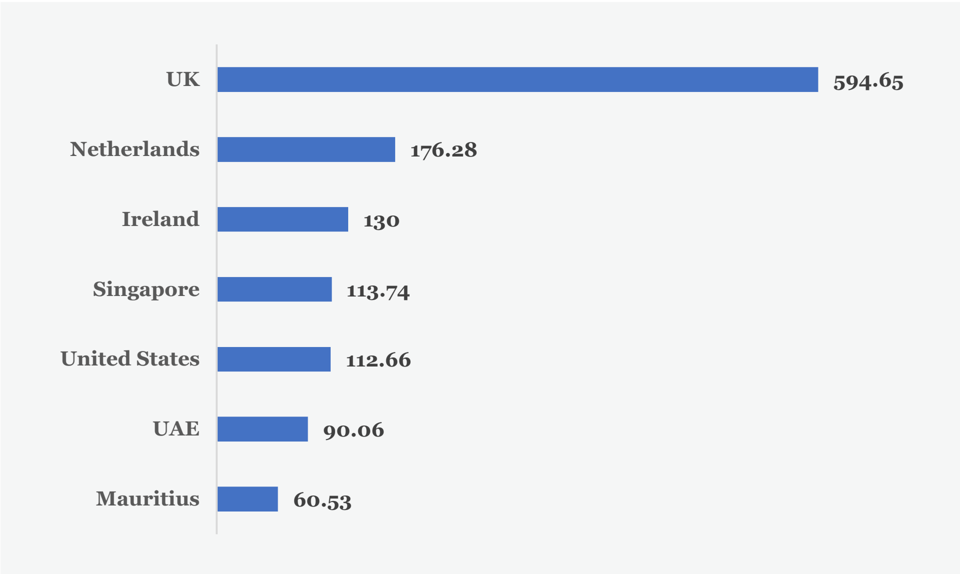
Credit rating agencies such as Moody, Fitch, and S&P have expressed concerns over Nigeria's public debt size e.g., the federal government spent 97.5% of its January to May 2020 revenue on debt servicing. In September, Fitch revised Nigeria's outlook to stable and affirmed the IDR at 'B'. It also noted that de facto foreign restrictions could also damage investor confidence and possibly lead to Nigeria's exclusion from benchmark equity indices, durably impeding a return of foreign inflows. The 'B' rating reflects weak fiscal revenues, comparatively low governance, and development indicators, high dependence on hydrocarbons, and a track record of subdued growth and high inflation. These rating weaknesses are balanced against the large size of Nigeria's economy.

Virus Intensifies Foreign Investors Apathy

The decline in Nigeria's capital importation numbers was also the result of the impact of the coronavirus pandemic on Nigeria's major capital imports. Many of the countries Nigeria depends on for capital inflows contracted in Q3 2020. Nigeria's top five capital import origins in Q3 2020 were the UK $594.65m, Netherlands $176.28m, Ireland $130m, Singapore $113.74m, and United States $112.66. For example, in Q2 2020 the UK economy contracted -20.4%, Singapore -13.2%, Netherlands -8.5%, and the US -32.9%. If these countries continue to record economic contraction, the capital importation figures would fall further in 2021 (*see Chart 19*).

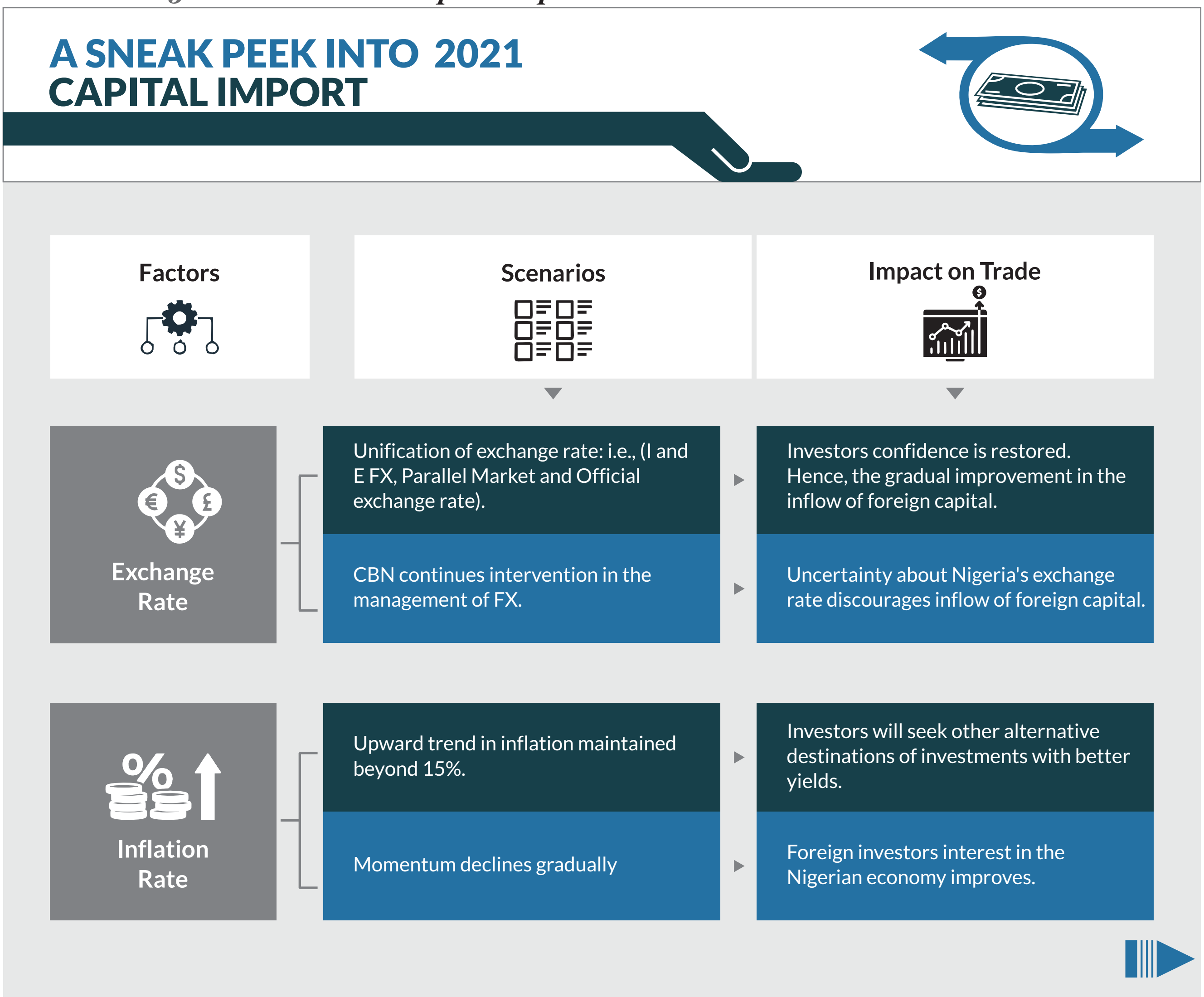
Chart 19: Capital Inflows by Origin Q3 2020 ($'m)

Chart 19: ***Capital Inflows by Origin Q3 2020 ($'m)***



Source: Proshare Research, NBS

Illustration 15: ***Sneak Peek into Capital Importation 2021***



Factors	Scenarios	Impact on Trade
Vaccine	Inoculation in origin countries of Nigeria's capital inflow improves.	Improvement in capital inflow
	Inoculation slow	Decline in capital inflow
BREXIT	No deal	Decline in capital inflow
	A trade deal reached	Present momentum of capital inflow is maintained.
Government Policy	Stable	Investors are encouraged to channel their funds to the Nigerian economy.
	Unstable	Discourages investors. Hence, the decline in capital inflow.

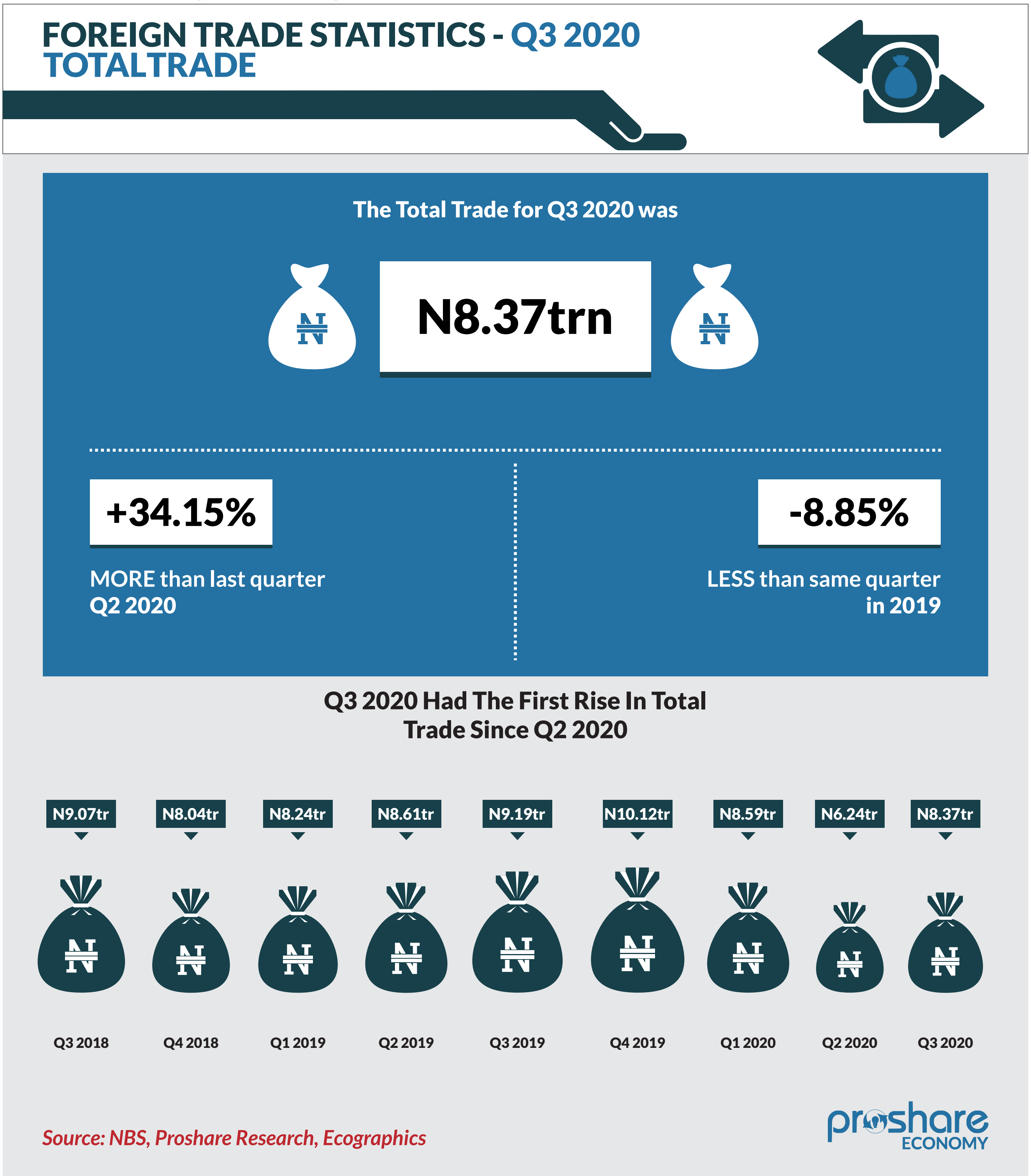
Source: Proshare Research, Ecographics

Trade Balance

Nigeria's merchandise trade balance as of Q3 2020 stood at N8.37trn. The trade balance increased by +34.15% when compared with the previous quarter (Q2 2020) while it declined by -8.85% when compared with Q3 2019. Nigeria's crude oil exports amounted to N2.42trn, non-crude oil exports N561.18bn, non-oil exports N214.65bn. These reveals that Nigeria's export revenue base is weak and is still heavily reliant on oil export revenue as its main source of foreign exchange earnings (*see Illustration 16*).

Illustration 16: Nigeria's Foreign Trade Statistics

Illustration 16: Nigeria's Foreign Trade Statistics



Nigeria's trade deficit rose by +32.45% from N1.8trn as of the end of Q2 2020 to N2.38trn in Q3 2020. Nigeria's import was valued at N5.38trn, representing an increase of +33.77% in Q3 2020 when compared with Q2 2020 and +38.02% compared with Q3 2019. On the other hand, the export component accounted for N2.99trn of the total trade in Q3 2020 indicating an increase of +34.85% compared to Q2 2020, but a decline of -43.41% compared to Q3 2019 (*see Illustration 17*).

*Illustration 17: **Summary of Nigeria's Foreign Trade***

FOREIGN TRADE STATISTICS - Q3 2020

Summary of Foreign Trade

Trade Balance	Imports	Exports
N-2.39trn	N5.38trn	N2.99trn

Total Trade

N8.37trn

Crude Oil Exports	Non-Crude Oil Exports	Non-Oil Exports
N2.42trn	N568.18bn	N214.65bn

81.02%	Crude Oil/Total Exports
35.74%	Exports/Total Trade
33.77%	Change Imports
34.85%	Change Exports
7.17%	Non-oil Exports/Total Exports

Source: NBS, Proshare Research, Ecographics

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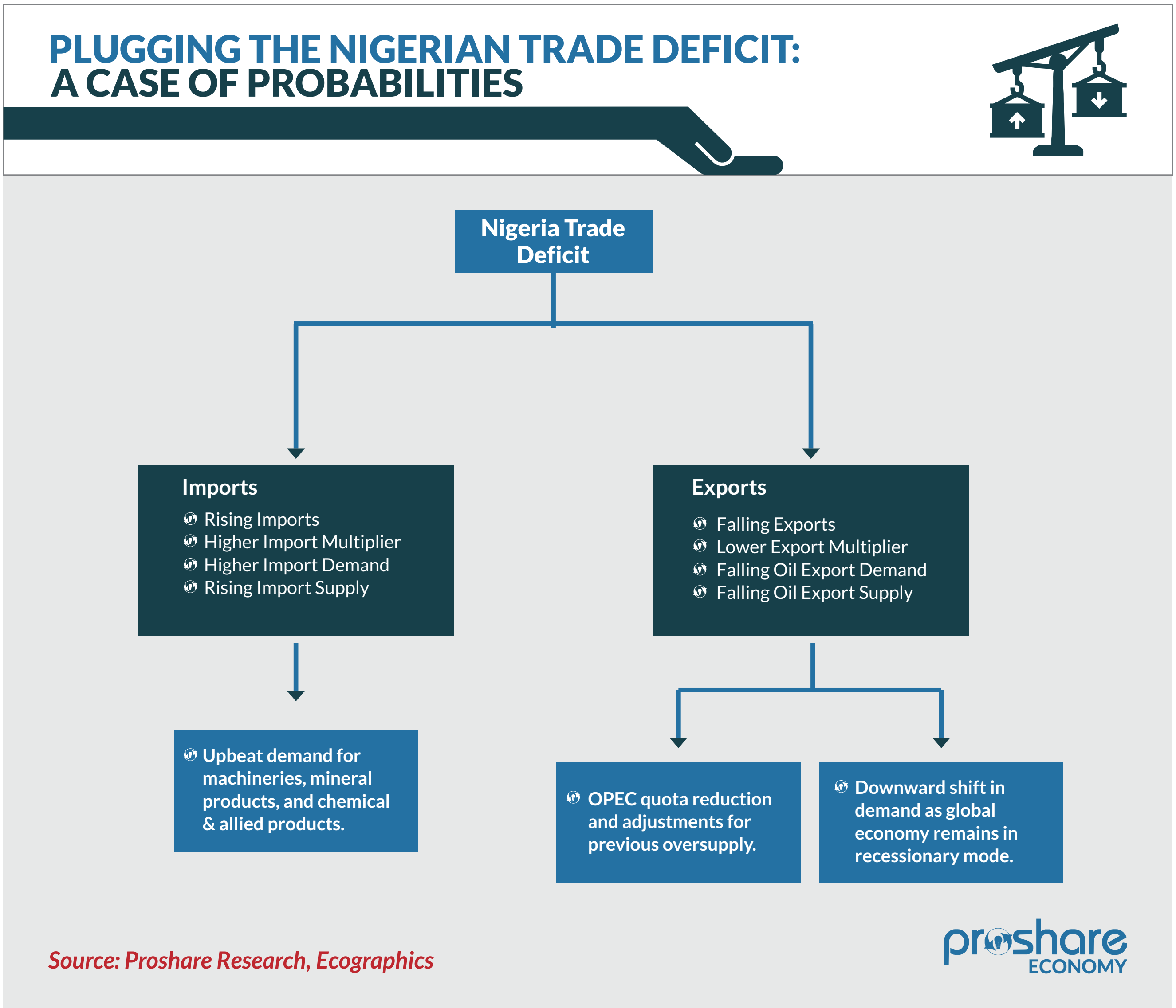
The rise in Nigeria's trade deficit could be attributed to the rise in Nigeria's imports and the decline in Nigeria's exports. The rise in Nigeria's imports could be attributed to the pent-up import demand for machinery, mineral products, chemical & allied products. On the other hand, the significant decline in export could be attributed to the decline in lower oil prices and OPEC + production cuts (*see Illustration 18*).

Illustration 18: ***Plugging the Nigerian Trade Deficit; A Case of Probabilities***



Further analysis of Nigeria's trade balance reveals that in the major categories of Nigeria's trade components, the Nigerian economy imported more than it exported in these major categories i.e., amongst 7 major categories of goods traded, Nigeria imports in 5 major categories exceeded the exports recorded in the same period. For example, agricultural imports which amounted to N503.44bn in Q3 2020 exceeded exports which were N60.49bn in Q3 2020, also, raw materials import N710.21 exceeded the exports of N11.16bn recorded in Q3 2020 (*see Illustration 19*).

Illustration 19: ***Nigeria's Monthly Export, Import and Total Trade Value by Sectors (N'm) and Market Shares by Sector***

FOREIGN TRADE STATISTICS - Q3 2020

Monthly Export,Import and Total Trade Value by Sectors (N'million) and market shares by sector

Sector	Exports % Share of Total Exports	Exports	Imports % Share of Total Imports	Imports	Total Trade % Share of Total Trade	Total Trade
AGRICULTURAL GOODS	2.02	N60,490.34	9.36	N503,444.58	6.73	N563,934.93
RAW MATERIAL GOODS	0.37	N11,164.17	13.2	N710,209.39	8.61	N721,373.56
SOLID MINERAL GOODS	0.18	N5,529.29	0.65	N35,224.39	0.49	N40,753.68
ENERGY GOODS	0.15	N4,469.28	0.00%	N8.67	0.05	N4,477.95
MANUFACTURED GOODS	4.44	N132,999.54	63.78	N3,432,090.35	42.57	N3,565,089.88
CRUDE OIL	81.02	N2,424,804.60	0.00%	0.00%	28.95	N2,424,804.60
OTHER PETROLEUM OIL PRODUCTS	11.81	N353,531.03	13.02	N700,471.88	12.59	N1,054,002.92
TOTAL	100.00%	N2,992,988.25	100.00%	N5,381,449.26	100.00%	N8,374,437.52

Source: NBS, Proshare Research, Ecographics

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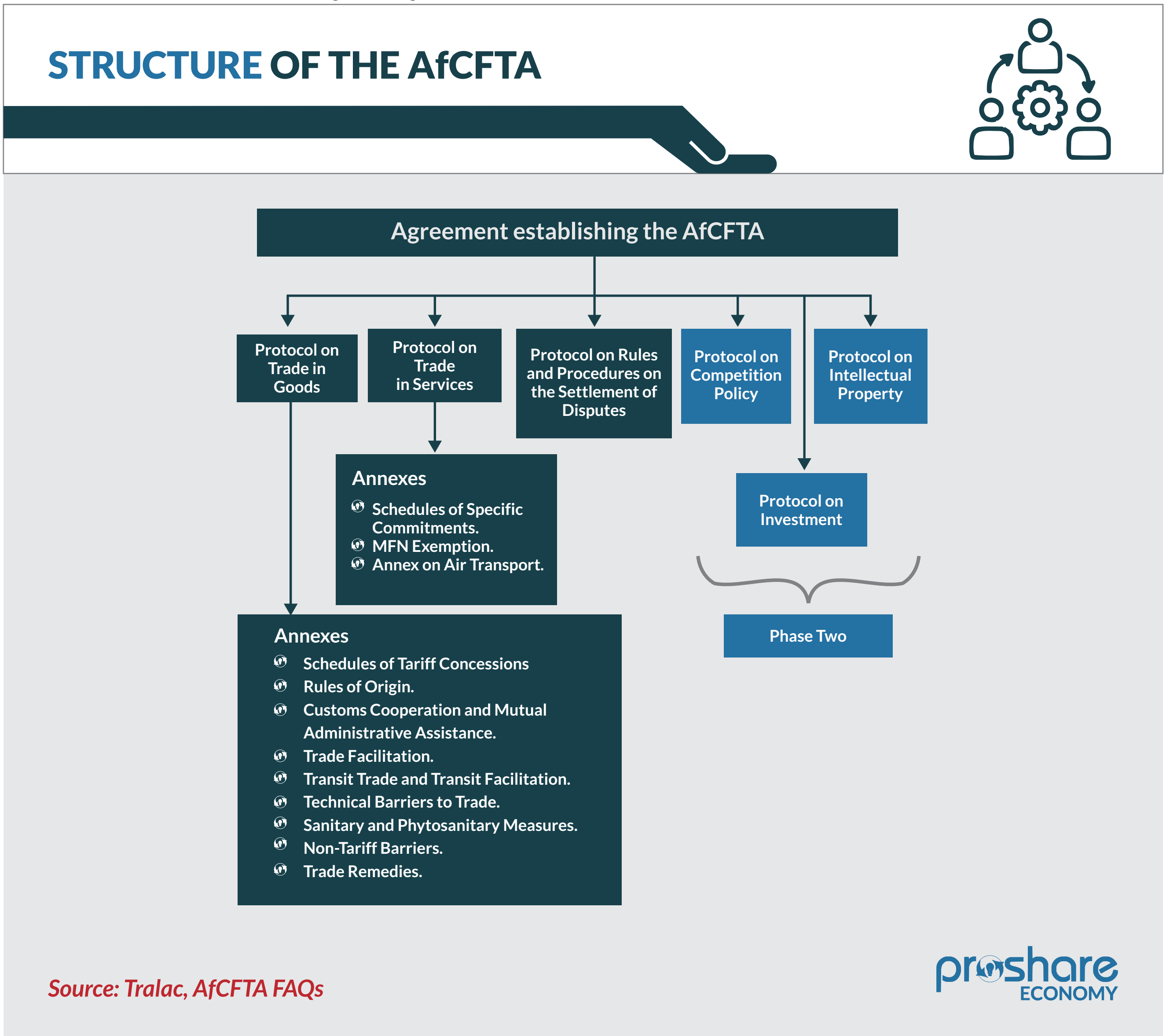
AfCFTA and the Reality of Nigeria's Trade Balance

Although the African continent faces a plethora of challenges in trade ranging from tariff and non-tariff barriers to poor infrastructure, poor transportation networks, corruption, and heavy bureaucracy, the AfCFTA presents a lot of opportunities for the African continent. The objective of the AfCFTA is to create a single continental market for goods and services, with free movement of businesspersons and investments, paving the way for accelerating the establishment of the Continental Customs Union.

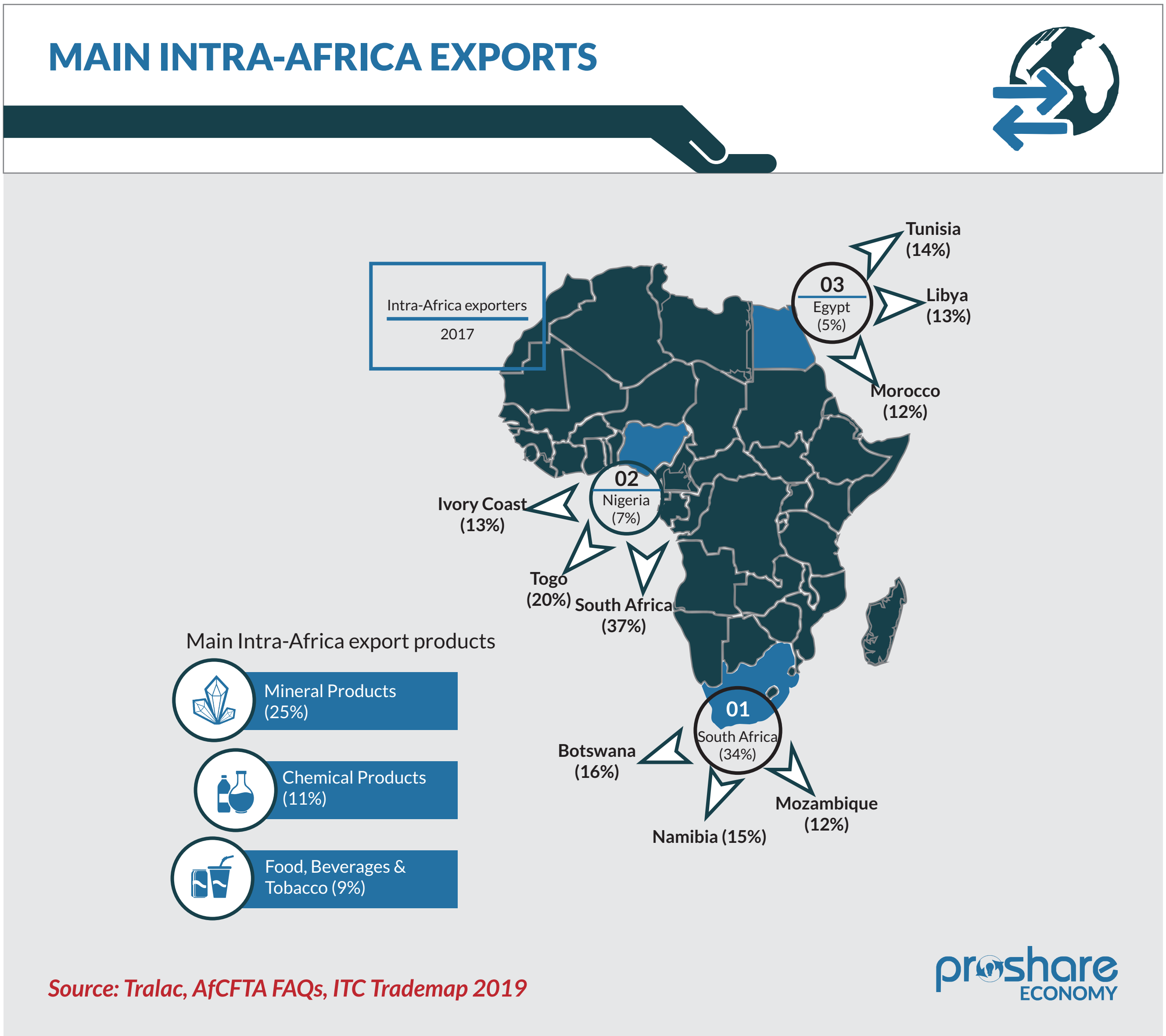
Illustration 20: ***Structure of the AfCFTA***



Despite the opportunities the AfCFTA presents, the agreement would only benefit countries with a structured economy that are producing locally than some countries that do not have industries to produce/add value. Furthermore, it is argued that the agreement would impact government revenue and social welfare, as the elimination of tariffs among African countries would negatively affect trading states' treasury by up to $4.1bn annually and, deepen poverty. Furthermore, it is feared that the agreement would open the country's seaports, airports, and other businesses to unbridled foreign interference and domination.

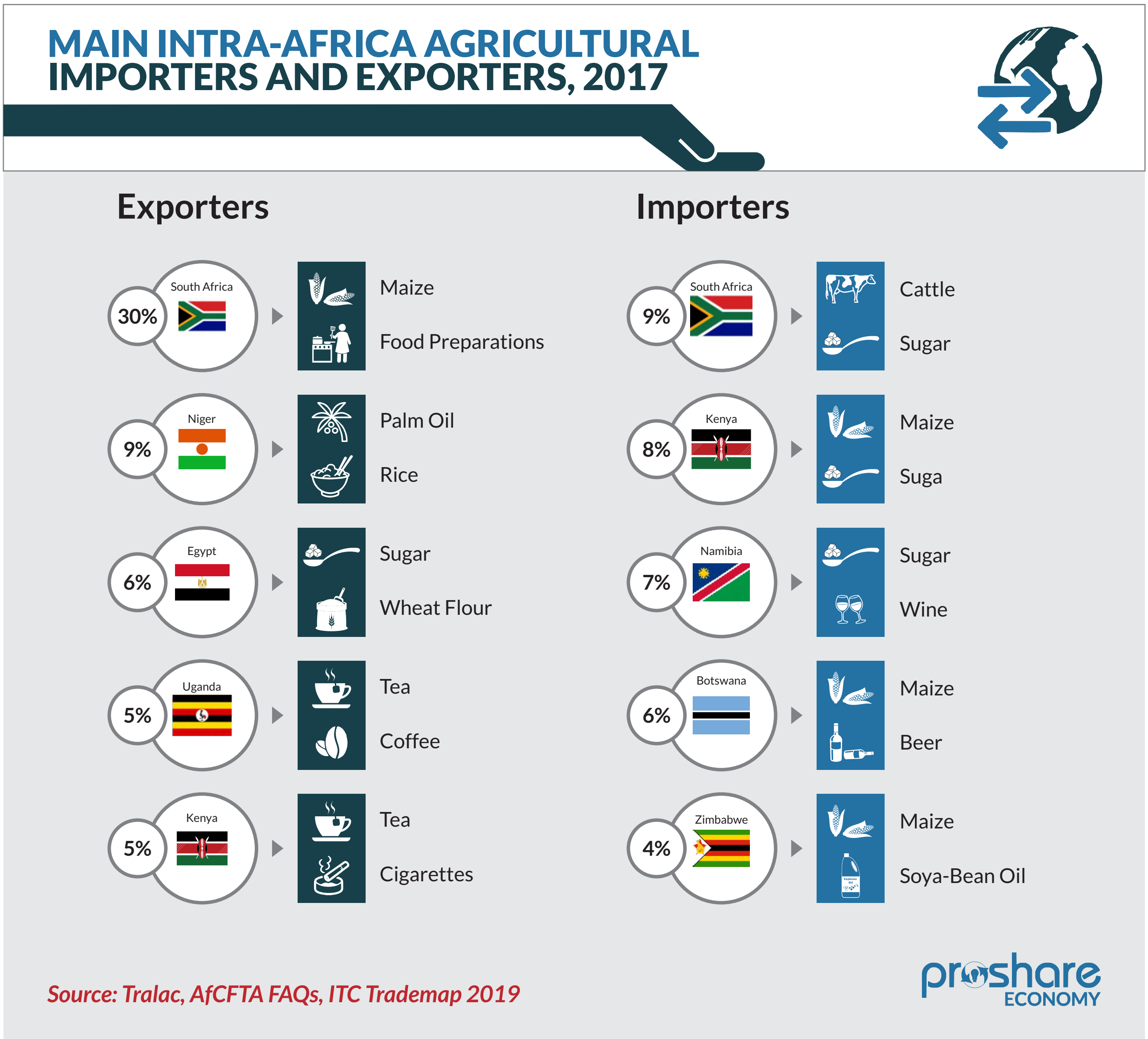
In 2017, total intra-African agricultural trade was valued at US$24.4bn, representing 19% of total intra-African exports and 18% of intra-African imports. South Africa is the main exporter of agricultural commodities to the rest of the continent followed by Nigeria and Egypt (*see Illustration 21*).

*Illustration 21: **Main Intra-Africa Exports***



At the same time, Kenya and Namibia are the main intra-African agricultural importers. Intra-African agricultural exports are mainly palm oil, sugar, maize, rice, and tobacco. Intra-African trade is relatively low, presently only 15% of African exports go to other African countries compared to intra-regional trade level of 58% in Asia, 67% in Europe, and 31% in North America. Exports to the rest of the world were dominated by primary products (especially raw materials). These accounted for about 60% of total exports. Other manufactured goods, machinery, and transport equipment represented close to 70% of total imports while the main intra-Africa export products in 2017 were Minerals (25%), chemical products (11%), and food, beverages, and tobacco (9%) (*see Illustration 22*).

Illustration 22: ***Main Intra-Africa Agricultural Importers and Exporters, 2017***



Decomposing Nigeria's Trade with Africa

To understand how Nigeria stands to benefit from AfCFTA, it is important to decompose Nigeria's trade balance with Africa. The most recent data from NBS reveals that in Q3 2020 Nigeria only exported 14.77% of goods to Africa while it only imported 3% of its goods from Africa. Nigeria's top three export commodities to Africa in Q3 2020 were crude oil N343.46bn, manufactured goods N78.35bn, and agricultural goods N9.11bn. On the flip side, Nigeria's top three import commodities from Africa in Q3 2020 were manufactured goods N84.09bn, raw material goods N58.08bn, and agricultural goods N15.88bn (*see Illustration 23*).

Illustration 23: ***Decomposing Nigeria's Q3 2020 Trade with Africa***

DECOMPOSING NIGERIA'S Q3 2020 TRADE WITH AFRICA

	Exports to Africa 15% N442.3bn	Imports from Africa 3% N175.37bn
	Exports	**Imports**
AGRICULTURAL GOODS	% Share of Total Exports 15.07% NN9.11bn	% Share of Total Imports 3.15% N15.88bn
RAW MATERIAL GOODS	% Share of Total Exports 36.71% N4.09bn	% Share of Total Imports 8.18% N58.08bn
SOLID MINERAL GOODS	% Share of Total Exports 51.47% N2.85bn	% Share of Total Imports 24.91% N8.75bn
ENERGY GOODS	% Share of Total Exports 98.99% N4.42bn	% Share of Total Imports 4.15% N360,000
MANUFACTURED GOODS	% Share of Total Exports 58.91% N78.35bn	% Share of Total Imports 2.45% N84.09bn
CRUDE OIL	% Share of Total Exports 14.16% N343.46bn	% Share of Total Imports 0.00% 0.00%
OTHER PETROLEUM OIL PRODUCTS	% Share of Total Exports 0.001% N6.95m	% Share of Total Imports 1.22% 8.6bn

Source: Proshare Research, Ecographics

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For Nigeria to fully utilize the full benefits of the AfCFTA agreement, it will need to focus on deepening its manufacturing capacity. An increase in its productive capacity would be impossible unless it resolves its infrastructural deficiencies such as epileptic power supply, poor road networks, insecurity. If these issues are not properly addressed Nigeria's cost of production would rise and hence make its production uncompetitive and limit Nigeria's ability to take full advantage of the opportunities that arise because of the AfCFTA agreement. Nigeria's focus on manufacturing activities will help drive economic growth, increase employment, and deepen its economic sustainability.

Eyes on 2021: The Multi-vision of Progress

Nigeria's trade balance for 2021 is hinged on many factors such as exchange rate dynamics, implementation of the AfCFTA, border closure, and the quick dispensation of the COVID-19 vaccine. For example, an effective and efficient port will help improve Nigeria's trade balance as encumbrances preventing the free flow of goods and services will be eliminated while on the flip side, if the current challenges facing Nigeria's port system continues e.g., the delays encountered in moving goods via the Apapa seaport then the current trade balance would likely worsen or remain the same.

Furthermore, the commencement of the AfCFTA portends advantages to Nigeria's trade balance as it opens a wider market space for Nigeria's exports and opportunity to get cheaper imports of goods and services. Also, a quick roll-out of the COVID-19 vaccine will help restore the global supply chain and hence have a positive effect on Nigeria's trade balance. On the other hand, an uneven roll-out of the COVID-19 vaccine will affect global trade adversely, and hence cause slow growth of Nigeria's trade (*see Illustration 24*).

Illustration 24: Eyes on 2021:
The Multi-vision of Progress

*Illustration 24: **Eyes on 2021: The Multi-vision of Progress***

EYES ON 2021: THE MULTI-VISION OF PROGRESS

Factors	Scenarios	Impact on Trade
Exchange Rate	Unification of exchange rate: i.e., (I and E FX, Parallel Market and Official exchange rate)	Improvement in trade balance as exporters are encouraged to remit funds with the CBN.
	CBN continues intervention in the management of FX.	Nigeria's trade balance trend remains unchanged.
Ports	Continued gridlock at the ports e.g., gridlock in Apapa which has increased the cost of goods.	**Trade balance worsens** • Cost incurred because of demurrage remains. • Delay in shipment discourages exporters and importers.
	Application of technology such as video surveillance systems, automatic system of vehicle weights and dimension control etc to help in clearance at the ports and building of more ports and alternative routes to help decongest Apapa seaport.	**Trade Balance Improves** • Cost that arises because of gridlock at ports is eliminated. • Reduction in revenue diversion. • Increased port handling income e.g., revenue increases further from N300bn in 2019. • Fall in vandalism.
AFCFTA	Commences January 1st, 2020	• Marginal initial impact 2020/2021 • Increasing impact in 2022/2023.
Border Closure	Remains shut	• Current trade balance remains
	Opens	• Trade balance improves as firms are encouraged to export via land borders
Vaccine	Quick roll-out of the vaccine	**Trade balance worsens** • Supply chain is being restored. • Rebound in global growth.
	Uneven roll-out of vaccine	**Nigeria's trade balance trend remains unchanged.** • Global growth slows

Source: Proshare Research, Ecographics

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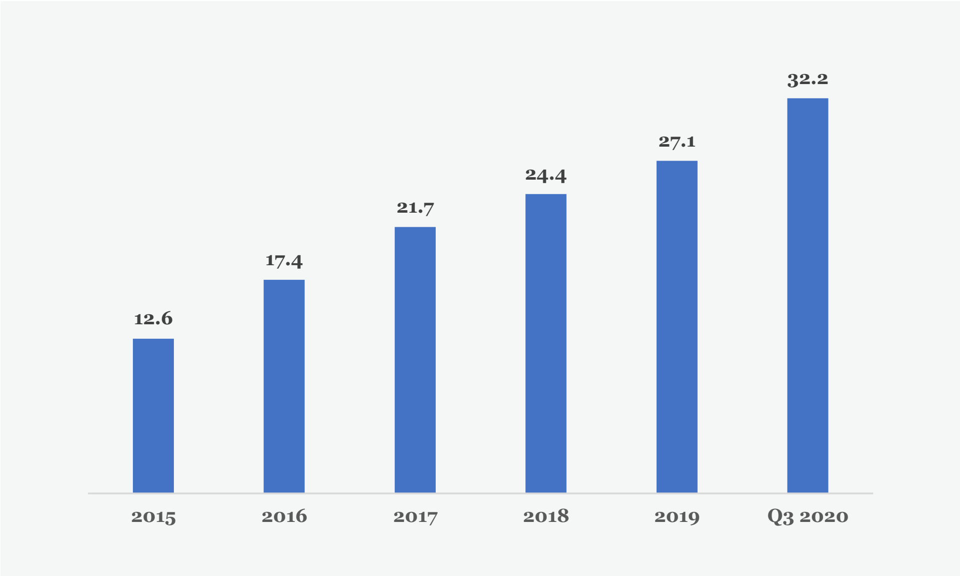
Nigeria's Public Debt

Nigeria's dwindling oil revenue and rising debt profile have caused growing concern amongst local economists. According to data from the Debt Management Office (DMO). Nigeria's total debt as of Q3 2020 stood at N32.2trn from N12.6trn as of 2015. Nigeria's debt increased by +155.56% in Q3 2020 from N12.6trn in 2015. Nigeria's debt to revenue ratio as of Q1 2020 was 99% in other words of the N950.56 billion retained revenue of the Federal Government, N943.13 billion was used to service debt, although this improved slightly in May 2020 as the debt-to-revenue ratio dropped to 72%.

Analysts note that Nigeria has a Eurobond issue of over US$500m maturing January 2021 making it necessary to choose between either redeeming or refinancing the debt, whichever decision made has deep implications for the country's debt structure (*see Chart 20*).

***Chart 20:* Nigeria's Total Debt (N'trn)**



Source: DMO, Proshare Research

Nigeria's ballooning debt profile is a major source of worry for the economy and its fiscal stability. The emergence of the COVID-19 pandemic has worsened Nigeria's rising debt profile. A recent report released by an international rating agency, Fitch, shows that although Nigeria's economic outlook has been upgraded to stable, its new investment grade of B is not an investment grade. A rising debt profile with no clear viable outlook regarding revenue is of major concern.

A breakdown of Nigeria's budget reveals that its planned fiscal deficit for the 2021 fiscal year was N5.2trn approximately 3.64% of GDP, which is above the 3% threshold set by the Federal Fiscal Responsibility Act (FRA), the increase above the regulated requirement was explained by the economic difficulties attributed to COVID-19 health pandemic. The deficit finance would likely come from new borrowings, privatization proceeds, and drawdown on loans secured for projects. Also included in the budget were new borrowings (domestic and foreign) of N4.28trn and debt service of about N3.3trn. Nigeria's 2021 budget would be largely financed by loans that pose concern for potential investors as Nigeria's debt-to-revenue ratio remains high (*see Table 12*).

Table 12: ***Nigeria's 2021 Budget***

NIGERIA'S 2021 BUDGET

Budget	2021 (N'trn)	2020 (N'trn)	Change %
Expenditure	13.59	10.81	21%
Capital	4.13	2.69	43%
Recurrent	5.6	5.44	12%
Debt service	3.32	2.68	16%
Revenue	7.88	5.84	35%
Deficit	5.2	4.97	5%
Oil Production (mbpd)	1.86	1.8	3%
Benchmark Oil Price p/b	$40	$28	43%
Exchange Rate To US$	379	360	5%
Projected Growth Rate	3%	-4.41%	168%
Inflation	11.95%	14%	-15%

Source: Proshare Research, Ecographics

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The Web of Challenges Ahead

Local economists observe that public debts are not necessarily bad as more advanced economies like the US, Germany, and China are presently highly indebted. However, debts of these mature economies appear to be better managed.

Analysts note that public debts channeled towards capital expenditure tend to have greater multiplier effects on economic growth. In the budget for 2021, capital expenditure was N4.1trn (30.1% of total expenditure) while recurrent non-debt expenditure was N5.6trn. To gear the budget towards growth the government would need to increase capital expenditure outlay in the face of a COVID-19-induced economic pullback.

Is recurrent expenditure problematic? Maybe not. But a high recurrent budget line relative to capital provisions would lead to a slower than desired growth of national output or GDP.

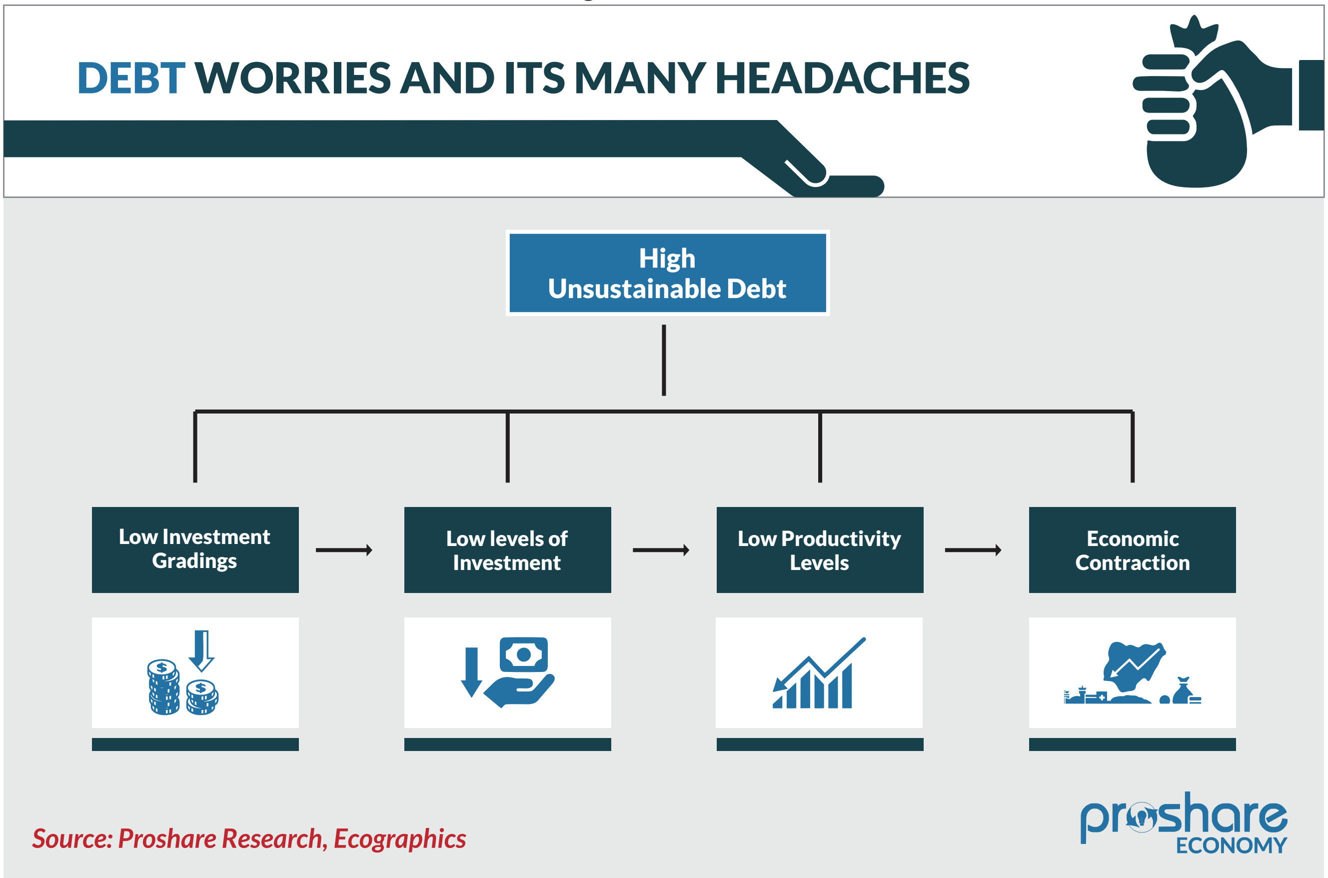
Capital projects in Nigeria have been with concerns bordering on the weak value creation opportunities that emerge from budgetary spending; the main issues center on, what are the true costs of these projects? who are the main beneficiaries? what is the economic value of the projects? What are the skills, and sources of project inputs? What are the terms of loan repayments? What are the sources of loan repayment?

A continuous surge in Nigeria's debt without a robust debt repayment architecture which would include accountability and the proper use of borrowed funds could create a debt web that strings up the economy.

A consistent rise in Nigeria's debt without viable repayment options could lead to a reduction in the inflow of FDIs & FPIs, thereby worsening credit ratings, unemployment, the national misery index, and domestic productivity.

Given that the Nigerian economy is sliding into a second quarterly contraction in 2020 and bouncing off the size of the fiscal budget for 2020, borrowing becomes inevitable to spur growth and initiate a quick rebound (*see Illustration 25*).

Illustration 25: ***Debt Worries and Its Many Headaches***



Overlapping Generations and Nigeria's Debt Castle

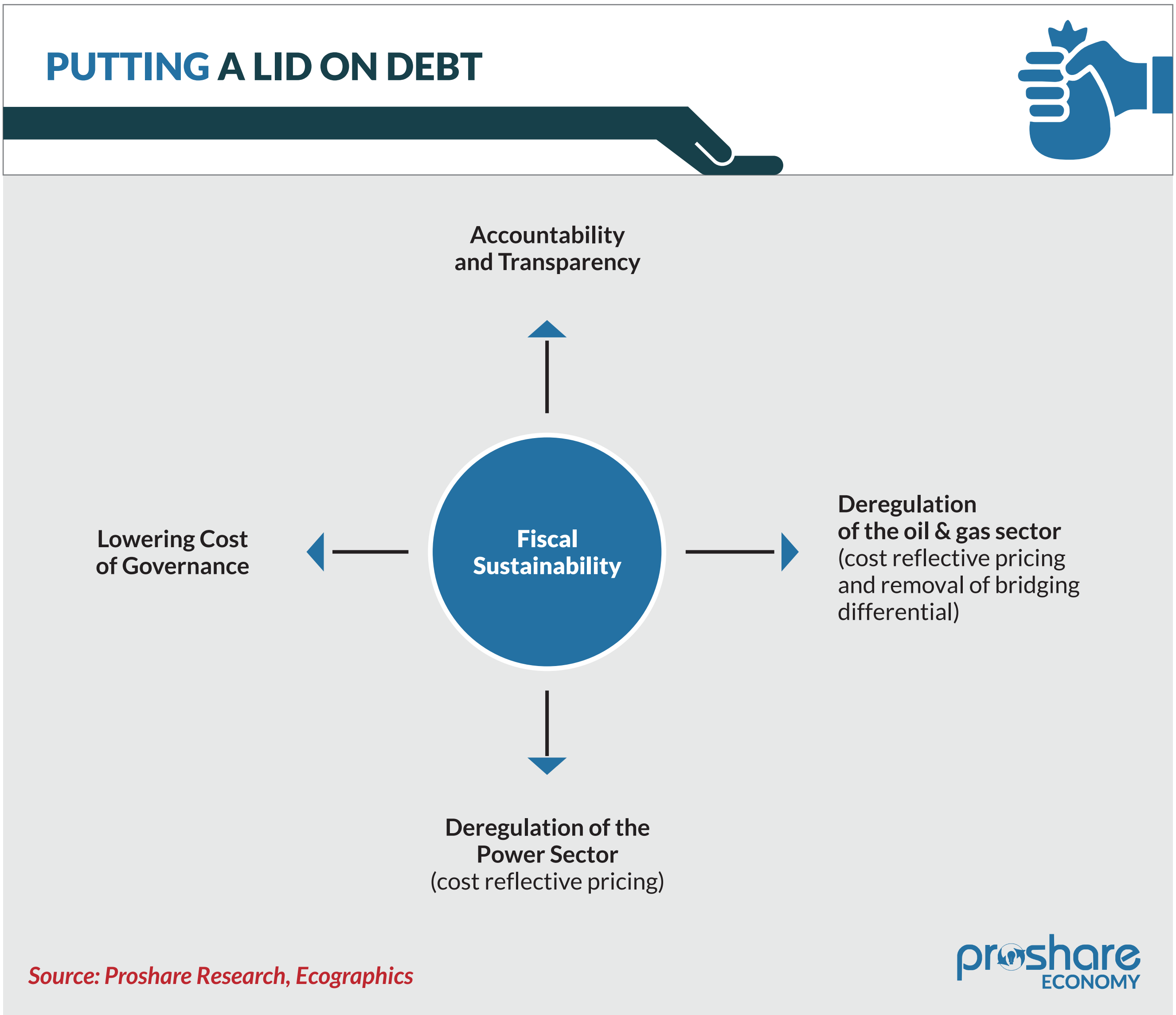
There have been fears by Nigerians that the ballooning size of Nigeria's debt if not carefully managed might affect the fiscal fortunes of a younger generation. The concerns are understandable in the light of Nigeria's recent fiscal history. Nevertheless, the fiscal authorities will continue to borrow. The minister of finance, Mrs. Zainab Ahmed, has said that she expects that Nigeria's debt stock by the end of 2021 would have risen to N38trn up from an estimated N32trn in Q4 2020.

Current Realities and Debt Sustainability

Nigeria's near-term debt future appears grim. The economy's poor physical infrastructure appears to hamper manufacturing output as supply chain disruptions caused by COVID-19 continue to plague the country's economic real sector. The weakness of public policy and a romance with obscure governance practice further stall the hope of a quick rebound as investors put a freeze on added capital importation. To make matters worse a lack of free access to foreign exchange has inhibited FPIs and FDIs from putting up their shingles in Nigeria.

Against this background, analysts have recommended that a limit be placed on the country's fiscal deficit with stiff consequences for the fiscal authorities if the limit is breached. Given Nigeria's high debt size, accessing new debts might be expensive as investors might impose a risk premium to cover the growing riskiness of Nigeria's fiscal position (*see Illustration 26*).

Illustration 26: Putting a Lid on Debt



Going Forward

The Nigerian government's economic intervention so far supports a neoclassical fiscal outlook. The central argument of this economic school of thought is that underdevelopment results from poor resource allocation due to incorrect pricing policies and excessive state intervention. The neoclassicists argue that the developing world is underdeveloped not because of the predatory activities of the developed world and the international agencies that they control but because of the heavy-handedness of the state and the problems of endemic corruption, inefficiency, and the absence of economic incentives.

Given the dire impact of the COVID-19 pandemic on Nigeria and other frontier economies, the World Bank has recently advised that these countries spend more to cushion their economies against the effects of the virus. But, given its slim budget, the Nigerian government's fiscal planners may need to concentrate on targeted spending to increase productivity despite its shrunken wallet, as it focuses on capital expenditure. Analysts also believe that as hard as it might appear at first blush, the government must inevitably come to terms with the need to significantly trim the cost of governance. Unfortunately, that bitter conversion may not happen anytime soon.

Exchange Rate

There has been increased clamour for the CBN to unify its multiple exchange rate as local analyst have become increasingly wary of the government's foreign exchange management policy as a looming global trade meltdown may exacerbate problems with foreign exchange inflows and bring about hard economic landing if the Central Bank of Nigeria (CBN) does not make up its mind of taking the tough choice of unifying the country's exchange rate windows now.
Local analysts note that the current multiple exchange rate regime is like using an elastic band to measure the length of a skirt; the skirt length will depend on how well or how firmly the person measuring the fabric decides to pull the band, in other words, each person pulling the band will have different skirt measurements; the consequence is confusion. This is precisely the reservation economists have with multiple exchange rates.

The Problem with Multiple Exchange Rate

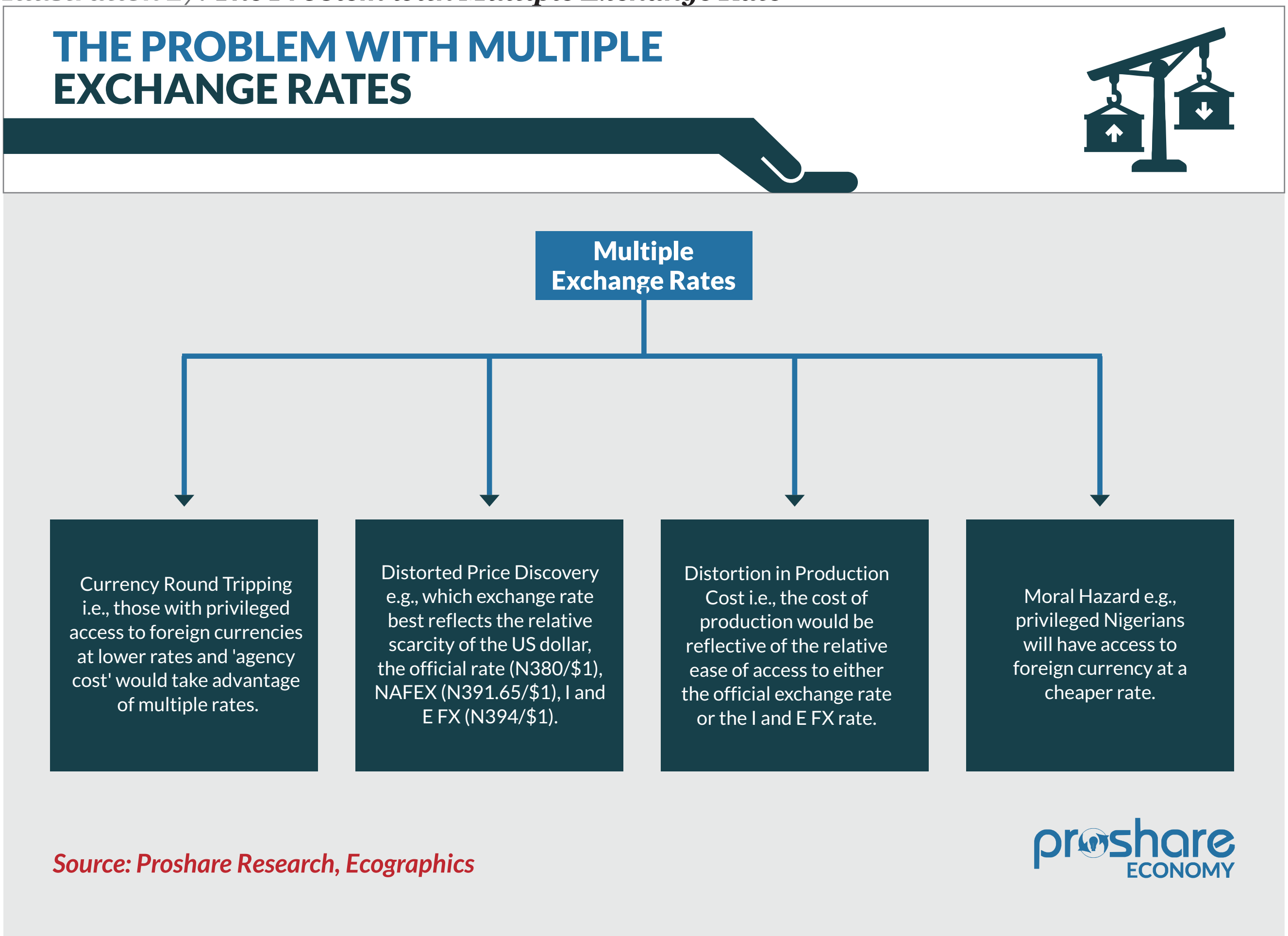
Some of the challenges associated with multiple exchange rates include currency roundtripping, distorted price discovery, distortion in production cost, and moral hazard (*see Illustration 27*).

- **Distorted price discovery:** For example, which exchange rate in Nigeria best reflects the relative scarcity of the United States dollar, the Official rate (N380/$), NAFEX rate (N392/$), IEFX (N394/$), or the bureau de change (BDC) rate?

- **Distortion in production cost:** The cost of production, will be reflective of the relative ease of access to either the official exchange rate or the IEFX rate. Manufacturers with access to the official rate would experience lower direct operating costs while those restricted to either the IEFX or BDC windows will experience incrementally higher costs. Large scale manufacturers have been preferred with access to the official window thereby snuffing out smaller competitors. The entry barrier caused by preferential access to FX has resulted in 'unnatural' monopolies (markets with a single dominant producer/supplier) or near-monopolies.

- **Moral Hazard becomes a craw that needs to be continuously scratched.** Erstwhile Central Bank of Nigeria (CBN) Governor once expressed anger over the 'cheap' money privileged Nigerians were making because of access to the official foreign exchange market. The fact that government and privileged economic agents take advantage of the spread between the official exchange rate and the NAFEX and IEFX rates is incontrovertible and perhaps dangerous as it consigns the naira to a one-way shorting bet, a situation where fund managers buy up dollars in a wager that the naira will continue to fall, or a classic case of a dog chasing its tail.

Illustration 27: ***The Problem with Multiple Exchange Rate***

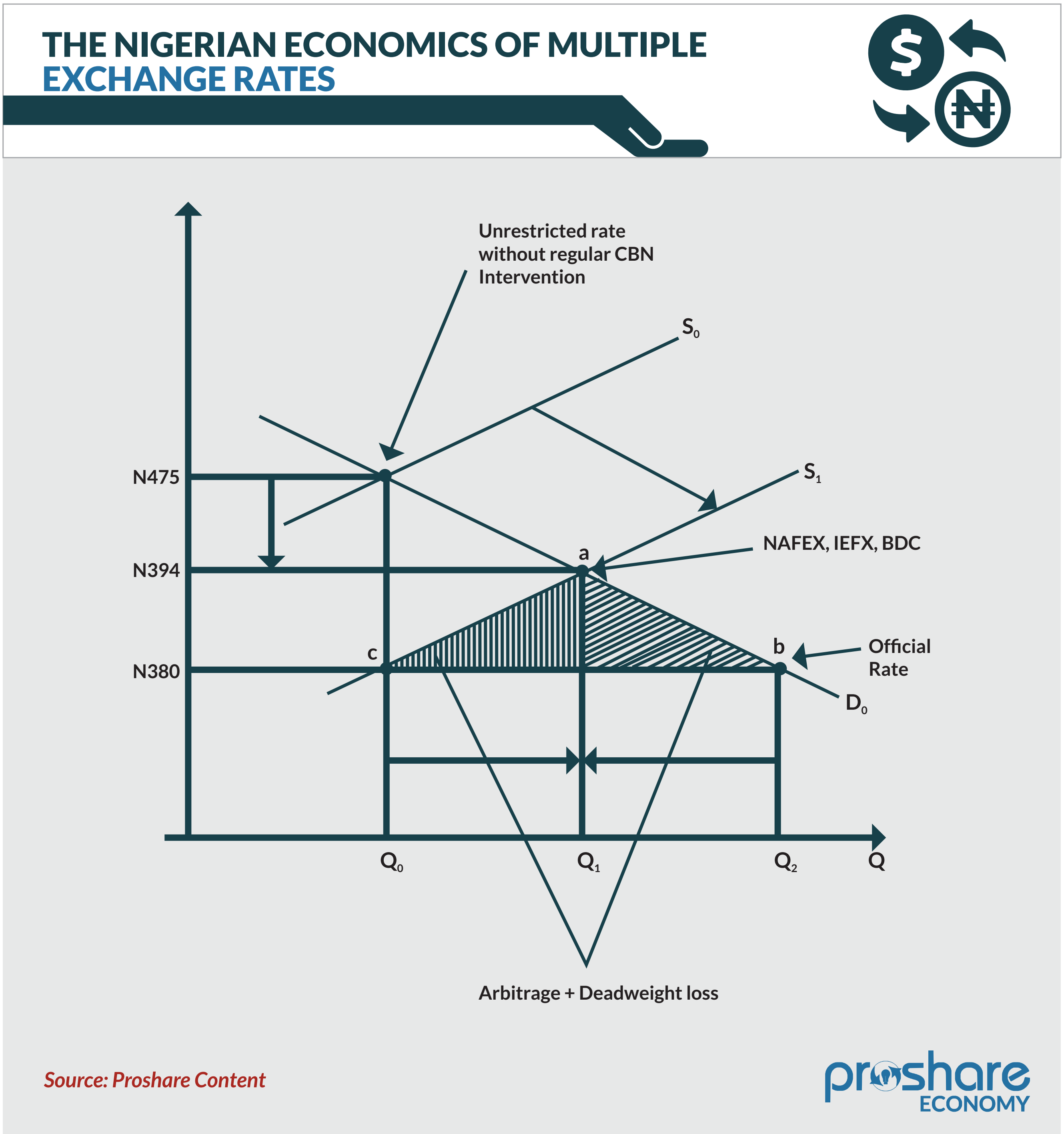


The Graphics of Market Distortion

The Central Bank of Nigeria's (CBN's) sustained effort at supporting the value of the naira through the weekly or bi-weekly supply of foreign exchange creates a unique challenge for foreign exchange management. The CBN stands in the position of a money supplier of a commodity with several buyers, the standard economic outcome is that the price of the commodity would be higher than if more suppliers existed in the market, in other words, the monopolist can dictate either the price or the quantity of FX available **but not both**.

Standard economic reasoning of an 'imperfect' market condition for FX is as appears in the chart:

Illustration 28: ***The Nigerian Economics of Multiple Exchange Rates***



A flexible adjustment of the FX rate would (in the short run) see the Naira to dollar rate rise above recent exchange values. As foreign reserves decline based on slow crude oil demand and CBN's efforts at stabilizing the exchange rate around N380/$ wane, the FX rate will rise as the quantity of dollars on offer decline (from Q1 in the chart to Q0). The current official rate ofN380/$ creates arbitrage opportunities (the shaded area in the chart to the right of triangle 'abc') and some 'deadweight loss' because of the absence of a 'market-clearing' price (the left portion of triangle 'abc').

Table 13: ***CBN, NAFEX and BDC FX Rates (January-December 2020)***

CBN, NAFEX, AND BDC FX RATES (JAN-DEC 2020)

2020	CBN		NAFEX		BDC	
	Open	Close	Open	Close	Open	Close
January	307	307	364.19	363.75	362	360
February	307	306.95	363.71	365.38	360	360
March	307	361	365.33	386.51	360	416
April	361	361	387.7	387.67	416	465
May	361	361	387.35	387.69	430	453
June	361	361	386.83	386.75	441	460
July	361	361	386.5	388.68	460	475
August	361	380	386.5	386.69	475	466
September	380	380	385.78	386.8	455	467
October	380	380	385.83	385.95	467	467
November	380	380	385.81	390.5	467	467
December	380	380	390.5	400.33	467	470

Source: CBN, ABOKI FX, FMDQ, Proshare Research, Ecographics

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Another School of Thought

Economists and other thought-led analysts have argued that the problem with the exchange market and by extension - the country's primary concern, should be **liquidity** and not **unification** or **convergence**. This school of thought believes that with more foreign exchange in supply, arbitrage opportunities gradually disappear, and the tiered exchange rate structure will naturally disappear.

The school points to the average daily market volume (ADMV) as a metrics of importance. By way of elaboration, those canvassing the supply-side solution to tiered exchange rates, not that ADMV was $754m in 2018 (representing 2.5% of Africa and 0.0155 of global activity). This they argue is materially insignificant and attributing it to the multiplicity of rates is a weak argument.

Supply-side analysts further note that developments in the uncollateralized loan market and international remittances through ***social*** rather than ***financial*** networks (involving remittances to Nigeria of about $24bn annually) remains instructive. The CBN in an attempt to address the supply side challenges of FX in its most recent circular noted that "Beneficiaries of diaspora remittances through International Money Transfer Operators (IMTOs) shall henceforth receive such inflows in foreign currency (US Dollars) through the designated bank of their choice. Such recipients of remittances may have the choice of receiving these funds in foreign currency cash (US Dollars) or into their ordinary domiciliary account.

The large spread in rates reflects supply-side rigidities. Therefore, increasing FX supply should bring about lower rates in both markets and end the need for multi-tiered rates as presently exist. The argument of a supply-side approach to FX management is persuasive but inconclusive as another school of thought holds firmly to the belief that the supply-side argument is necessary, but not sufficient.

Looking at the Other Policy Arm

As much as increased liquidity in the FX market is a major factor in ensuring that market rates converge, other analysts believe that the multi-layered architecture of the CBN needs to be removed to prevent arbitrage and to allow the market value of the naira reflect the underlying realities of demand and supply of FX. This school of thought argues that, although FX liquidity is a necessary condition for market-rate convergence, it is not adequate to ensure stability as preferential rates allowed by the CBN would create room for market distortions.

As an example, the school of thought argues that - if supply were adequate from private sources, this would see the naira appreciate and force the price of the dollar closer to N380/$; but if the CBN allows discriminatory pricing and dollar subsidies (*as occurs presently*), economic agents will have an incentive to obtain dollars at cheaper rates and sell them to third parties at higher rates. The subsidy would discourage private sellers of the dollar who feel hard done by because of the artificially created spread, hence leading to a cut-back in the supply of private dollars and a gradual rise in the N/$ rates in private markets.

As Yogi Berra once famously said, *"it's deja vu "*.

The school for a dismantling of the scaffolds of the CBN's multiple exchange rate structures believes that improved liquidity must be accompanied by a policy ***adverse to arbitrage*** and ***high-velocity speculation***.

Bravery in The Face of Expediency

The monetary policy strategy of multiple exchange rates is usually used as a short term technical measure to smoothen the path towards exchange rate unification and lead to greater transparency in the allocation of scarce resources, but so far the CBN has been seduced into using the tiered exchange rate approach to maintain policy balance, but the '***Cobra effect***' of the solution leading to unpleasant consequences is both real and compelling.

Several consequences arising from the current FX management architecture reveals a weak economic underbelly, viz:

- The maintenance of multiple exchange rates has seen 'hot' money go in and out of the FX market as portfolio managers try to second guess the extent of depreciation of the Naira as oil prices gradually decline. This plays up in the higher percentage change in the price of FX in the Bureau de change market relative to NAFEX and IEFX windows (*see Illustration 29*).

***Illustration 29:* FX Rates YTD Percentage Change**

FX RATES YTD PERCENTAGE CHANGE

	31-Dec-19	31-Dec-20	% Change
CBN	307	380	23.78%
NAFEX	364.7	400.33	9.77%
BDC	----	470	----

Source: CBN, ABOKI FX, FMDQ, Proshare Research, Ecographics

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Being Brutal, Lovingly

If Nigeria is to head off the harder problems of a global recession, the CBN must be prepared to bite down on the bullet of rate unification, and the best time to do it is now

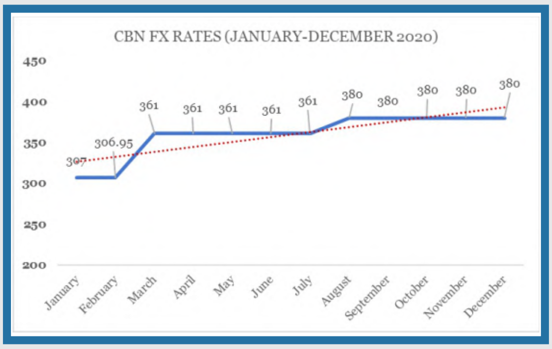
The more the economy suffers lower reserves, higher inflation, and wider budget deficits the more difficult it will become to take the tough love needed to eliminate exchange rate subsidies.

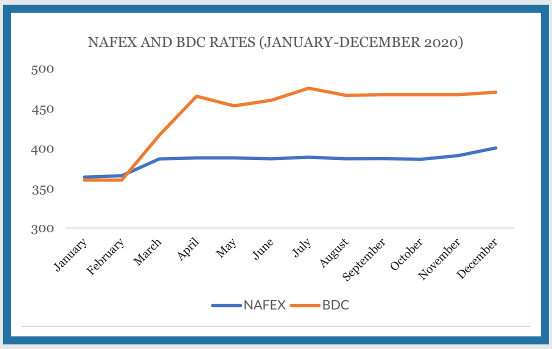
The use of demand management strategies such as limiting certain categories of importers from accessing the banking system for FX purchases can only be temporary, the reality of economics makes it impossible for regulators to control both demand and supply at the same time just as they cannot control quantity and price simultaneously.

Table 14: ***CBN, NAFEX, IEFX AND BDC FX Rates***

CBN, NAFEX, AND BDC RATES

2020	CBN	NAFEX	BDC
January	307	363.75	360
February	306.95	365.38	360
March	361	386.51	416
April	361	387.67	465
May	361	387.69	453
June	361	386.75	460
July	361	388.68	475
August	380	386.69	466
September	380	386.8	467
October	380	385.95	467
November	380	390.5	467
December	380	400.33	470





Source: CBN, ABOKI FX, FMDQ, Proshare Research, Ecographics

The Pleasures and Pains of Nigeria's Exchange Rates

There are numerous factors that will shape Nigeria's exchange rate in 2021. A recovery in oil price will help shore up foreign revenue and hence reduce the pressure on dollar demand. Furthermore, an increase in capital importation, improvement in interest rate and port clearance will help strengthen Nigeria's naira. On the other hand, if the export continues to decline, oil price slumps further, and Nigeria's port challenges worsens, then, the naira against the dollar will weaken in 2021 (*see Illustration 30*).

Illustration 30: ***The Pleasures and Pains of Nigeria's Exchange Rates***

THE PLEASURES AND PAINS OF NIGERIA'S EXCHANGE RATES

Factors	Scenarios	Impact on Exchange Rate
Oil Price	Rises to US $48-50	Positive effect on Nigeria's exchange rate ↑
	Declines below $30	Adverse effect ↓
CBN's Policy on Export Proceeds	Elimination of NXP for export proceeds	Positive ↑
	Policy on NXP remains the same	Exporters are discouragedand may source illegal alternatives ↓
Ports	Encumbrance faced in the port lingers	Adverse effect ↓
	Encumbrance faced gradually eliminated	Positive effect ↑
Capital Importation	Decline in capital importation e.g., FPIs and FDIs declines	Adverse effect ↓
	Improvement in capital importation	Positive effect ↑
Interest Rate	High interest rate e.g., encourages investment inflow	Positive effect ↑
Inflation Rate	High inflation rate e.g., inflation rate rises beyond 15%	Adverse effect ↓
	Inflation rate tapers down	Positive effect ↑

Source: Proshare Research, Ecographics

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Illustration 31: ***CBN Exchange Rate Policies and Actions for 2020***

CBN EXCHANGE RATE POLICIES & ACTIONS FOR 2020

March 10, 2020

The Central Bank of Nigeria (CBN) fined Bureau De Change (BDC) operators over various infractions in the foreign exchange market.
Over 100 BDC operators were fined N5 million each for various infractions in the foreign exchange market.

March 20, 2020

Central Bank of Nigeria devalued its official exchange rate from N307/$1 to N360/$1. The apex bank reflected this change on its website signaling a confirmation.

March 22, 2020

The Central Bank of Nigeria (CBN) halted the sale of dollars to the Nigerian National Petroleum Commission (NNPC) by oil companies, including International Oil Companies (IOCs) that operate within the shores of the country.
The apex bank explained that the move to stop the sale of dollars is in line with its commitment to improving foreign exchange supply to the economy as the impact of the novel Coronavirus (COVID-19) pandemic bites harder on the economy.

March 24, 2020

The CBN announced it was collaborating with the Nigerian Financial Intelligence Unit (NFIU) to uncover speculation and would charge such dealers for economic sabotage. The bank added that market fundamentals did not support devaluation.

March 27, 2020

Central Bank of Nigeria (CBN), in a note issued to Bureau De Change operators (BDCs) in the country, suspended the sales of foreign currency for two weeks.
However, this did not affect dollar transactions in the Investors & Exporters (I&E) window.
Thus, portfolio investors, as well as businesses that still require FX for foreign transactions settlement, accessed the I&E window.

April 27, 2020

CBN adjusted the exchange rate for import duty payment from N326/$ to N361/$.
With this development, the Nigeria Customs Service (NCS) was directed to effect an increase in duty payable on cargoes imported through the ports.

April 29, 2020

The Central Bank of Nigeria (CBN) resumed sales of dollars to SMEs that need foreign exchange for essential imports, as well as Nigerian students in foreign schools who need to pay their school fees.
According to a brief statement that was signed by the CBN's Director of Corporate Communications, Isaac Okoroafor, the apex bank provides over $100 million per week for the two categories of dollar consumers mentioned above.

May 10, 2020

The Central Bank of Nigeria (CBN) assured foreign investors that repatriating their funds from the country is secured despite forex related revenue shortages due to the drop from the sale of crude oil globally.
In the statement, CBN Governor, Godwin Emefiele explained that the apex bank had put in place policies to ensure an orderly exit for those that might be interested in doing so and also urged investors to be patient as such repatriations are processed, owing to the Bank's policy of orderly exit of investments.

May 18, 2020

The Central Bank of Nigeria (CBN) tasked industrial conglomerates operating in the country to support efforts of the government to grow the nation's economy and return it to its green days.
The CBN boss warned that the apex bank would not support the importation of items that could be produced in Nigeria. According to him, the bank could not spend its foreign exchange reserves on what would not boost the economy and generate jobs for Nigerians.

CBN EXCHANGE RATE POLICIES & ACTIONS FOR 2020

May 19, 2020

The Central Bank of Nigeria (CBN), in its quest to stabilize Naira injected funds to the currency market through the Wholesale Secondary Market Interventions.
The auction was earlier put-on hold by the CBN due to the COVID-19 pandemic and dwindling foreign exchange reserves standing at less than $34 billion.

May 21, 2020

The Central Bank of Nigeria (CBN) Governor, Godwin Emefiele, warned businesses and individuals against patronizing the parallel market, popularly called the black market.
He warned them to stop using black markets for foreign currency exchange, following the liquidity crisis triggered by low oil prices and a shortage of dollars.

June 23, 2020

The Governor of the Central Bank, Godwin Emefiele, confirmed that the CBN will continue to pursue unification around its Nafex rate. The NAFEX rate is the forex window where Investors and Exporters transact dollars on market-determined prices. The CBN Governor said this at an Investors Conference with the Federal Government of Nigeria by CitiBank.

July 3, 2020

CBN reportedly instructed bidders at its Secondary Market Intervention Sales (SMIS) to increase their bidding price to N380/$1 floor. The SMIS is the market where importers bid for forex using Letters of Credit and Form M.
The apex bank allegedly informed banks that they will only accept bids from N380/$1 and above and no longer N360/$1 meaning those who bid lower will not get any forex allocation.
Transaction success in this market is based on bids with those who bid higher than the floor as they are often in an advantageous position to secure forex.

July 13, 2020

CBN restricted access for the importation of maize through the official CBN forex window.
It hinged its decision on the need 'to increase local production, stimulate a rapid economic recovery, safeguard rural livelihoods and increase jobs which were lost as a result of the ongoing COVID-19 pandemic.

August 6th, 2020

Information on the website of the CBN revealed the apex bank had adjusted the official exchange rate to N380/$1 from N360.1/$1. The adjustment occurred on Thursday, August 6th, 2020.
This suggests the CBN may have unified the exchange rate in line with the promise made by Godwin Emefiele, the Governor of the Central Bank of Nigeria.

August 24, 2020

Central Bank of Nigeria (CBN) issued a circular removing buying agents /companies or any third parties from accessing its SMIS forex window through FORM M forex purchases.
In a circular dated August 24, 2020, the apex banks instructed that "Authorized Dealers are hereby directed to desist from the opening of Form M whose payment is routed through a buying company/agent or any other third parties" effectively eliminating third parties or middlemen from transacting in forex deals in its official SMIS window."

August 26, 2020

The Central Bank of Nigeria (CBN) to go tough on exporters who are guilty of forex non-repatriation. This is part of the CBN's ongoing efforts to resolve the prevalent forex crisis in the country by increasing forex liquidity.
To this end, the CBN directed banks to submit the names, addresses, and Bank Verification Numbers (BVNs) of all the exporters who have failed to repatriate their export proceeds. Necessary 'action' would be taken against such defaulters, the CBN said in a statement.

August 27, 2020

Nigeria's Central Bank issued a circular authorizing and instructing dealers to sell forex to end users at N386/$1.
In a circular titled, "Weekly Exchange Rate for Disbursement of Proceeds of International Money Transfer Service Operations" the Apex bank detailed the applicable exchange rate of proceeds of IMTOs for the period, August 31, 2020.

CBN EXCHANGE RATE POLICIES & ACTIONS FOR 2020

August 28, 2020

The Central Bank of Nigeria (CBN) barred operators of Payment Service Banks (PSBs) from accepting foreign exchange deposits and to accept any closed scheme electronic value (airtime) as a form of deposit or payment.

September 3, 2020

Nigeria's central bank pumped in $50 million into the FX market in a bid to test demand and supply and more importantly, the price of naira against the dollar.
$50 million was sold to foreign investors on the spot and forward market in what it termed a "test trade to gauge the level of dollar demand" in the market.

September 6, 2020

A memo circulating online indicated that the central bank instructed banks to Post-No-Debit on account of 38 companies.
A Post-No-Debit (PND) is basically an instruction to banks not to allow any withdrawals or transfers from the bank account of account owners, essentially blocking the account from outflows. It is usually drastic a measure taken to allow for investigation and possible to reclaim any illegal inflow into an account.

September 11,2020

The presidency gave the reason President Muhammadu Buhari ordered the Central Bank of Nigeria (CBN) to stop making available, foreign exchange to importers of fertilizer and food item, despite criticisms from some FX analysts and stakeholders.
It revealed that the move by the president to suspend the allocation of foreign exchange for food and fertilizer imports is an action borne out of patriotism.
This disclosure was made by the Senior Special Assistant to the President on Media and Publicity, Garba Shehu, when he appeared as a guest, on Channels Television's Sunrise Program, on Friday September 11, 2020.

September 25, 2020

The CBN sold over $200 million to BDCs since the resumed forex sales on Monday, September 7, 2020. This was expected to inject more liquidity to the retail end of the foreign exchange market, and discourage hoarding and speculation.
However, the exchange rate against the dollar failed to sustain the initial gains made, after the CBN announced plans to provide liquidity.
BDC operators have urged the apex bank to reconsider the margin allowed for the currency traders, as it was inadequate to meet their expenses.

October 7, 2020

The CBN sold over $450 million to BDCs since the resumed forex sales on Monday, September 7, 2020. This was expected to inject more liquidity to the retail end of the foreign exchange market and discourage hoarding and speculation.
However, the exchange rate against the dollar has failed to sustain the initial gains made, after the CBN announced plans to provide liquidity.
BDC operators have urged the apex bank to reconsider the margin allowed for the currency traders, as it was inadequate to meet their expenses.

November 30, 2020

In an effort to liberalize, simplify and improve the receipt and administration of diaspora remittances into Nigeria, the Central Bank of Nigeria (CBN) announced the following:

- Beneficiaries of Diaspora Remittances through International Money Transfer Operators (IMTOs) shall henceforth receive such inflows in foreign currency (US Dollars) through the designated bank of their choice.
- Such recipients of remittances may have the option of receiving these funds in foreign currency cash (US Dollars) or into their ordinary domiciliary account.

Source: Nairametrics, Proshare Research, Ecographics

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Your membership signifies:

1. Compliance
2. Governance
3. Transparency

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The Year 2020 In Retrospect; A Bleak Year For Households

Households are the bedrock of every economy, or at least they should be. Nevertheless, households in Nigeria are having a terrible time keeping heads above rising socio- economic waters. In 2020 Nigerian families were cut in several different places starting with higher taxes, a malevolent global health pandemic and serial job losses on the back of multiple company shutdowns.
The year started with local value added tax rate rising from 5% in 2019 to 7.5% in February 2020. The increase was greeted with mixed feelings, while some analyst felt that it would improve the government's fiscal balance, others felt that the increase would further impoverish consumers who were battling with rising cost of living reflected in a rise in headline and food inflation.

When A Bug Goes Rogue

The COVID-19 pandemic worsened households' living standards. The lockdown imposed by the government led to larger job losses, an increase in insecurity, and rampant social unrest. Furthermore, efforts by the government in collaboration with the Private Sector Coalition Against COVID-19 (CACOVID) to reduce the adverse impact of the pandemic on households and businesses had limited effect due to weak fiscal structure and revenue base (COVID-19 hit oil prices negatively).

Some of the fiscal responses by the federal government included: approval of a N75bn MSME Survival Fund, the scheme was aimed at supporting vulnerable micro and small enterprises in meeting their payroll obligations, and safeguarding jobs amongst MSMEs. Establishment of a N500bn COVID-19 crisis intervention fund which was to upgrade healthcare facilities at both national and state-levels, VAT exemption for an expanded list of basic food items plus medical and pharmaceutical products. Suspension of a proposed increase in electricity tariffs by distribution companies, three-month repayment moratorium for all TraderMoni, MarketMoni and FarmerMoni loans and the extension of the moratorium on loans issued by the Bank of Industry, Bank of Agriculture, and the Nigerian Export-Import Bank, etc.

The data coming out of the federal government's own statistics agency became increasingly depressing during the last year. Figures released by the National Bureau of Statistics (NBS), showed that unemployment rate rose from 23.1% in Q3 2018 to 27.1% in Q2 2020. The rise in the domestic unemployment rate reflected the poor growth of the real sector of the economy as MSMEs were sledgehammered by supply chain disruptions and disappearing demand with workers losing jobs and disposable incomes.

Drugs, Crimes and Unemployment

The rise in unemployment which has weighed more heavily on young Nigerians between the ages of 18 and 35 years has led to deepening social tensions and increased incidences of drug abuse, teenage pregnancies, crimes, and mental health disorders. With a virus pandemic set on top of already adverse socioeconomic condition, Nigeria in 2020 was poised gingerly on a box of gunpowder primed to explode.

The spillover of socioeconomic tensions in 2020 could make 2021 a difficult year for Nigerians, especially if oil prices decline below US$45 per barrel and the coronavirus pandemic leads to new rounds of economic lockdowns. So far, the country appears to be on the path to a growth recovery after suffering a gross domestic product (GDP) decline of -6.10% in Q2 2020 and -3.62% in Q3 2020. The declines occurred after a first quarter (Q1) growth rate of +1.87%.

Q1 2021 could see a negative real GDP growth rate of between -1.82% and -1.50% depending on the spread of the Coronavirus and the need for a comprehensive economic lockdown like experiences in Europe and some states in the United States of America (USA).

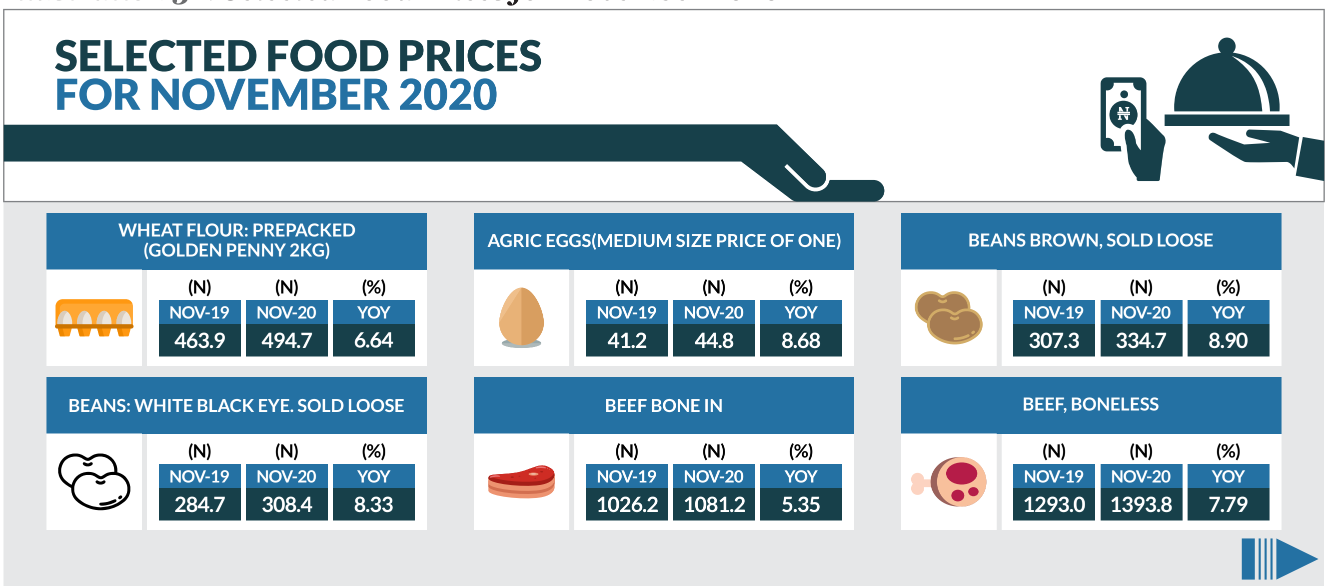
Declining economic output in Q1 2021 would naturally lead to further household distress and would require the federal government to increase the national debt numbers (recently put at roughly US$85bn) and increase fiscal spending and the budget deficit. Unfortunately, high fiscal leakages would make added fiscal spending ineffective and would lead to a widening social disparity between the haves and have nots. The widening gulf between the rich and poor would deepen social tension and may lead to disruptions of economic and social life in 2021 that the government would find difficult to contain.

Of Sad Faces and Rising Prices

The misery index of the average Nigerian household went up in 2020. The index is calculated by adding the seasonally adjusted annual rate of unemployment and the annual rate of inflation. Nigeria's unemployment rate as of Q2 2020 stood at 27.1% and it was forecast to rise further in the year. Equally, headline inflation sustained an upward trend with the most recent headline inflation rate standing at 14.89% as of November 2020.

The country's inflation rate rose persistently throughout the year, climbing from 12.13% in January to 14.89% in November 2020, suggesting that the average households' disposable income took a dive. This implied a fall in the welfare of Nigerian households as prices of essential goods and services continued to rise in the year. For example, the prices of medical services, hospital services, passenger transport by road, hairdressing salons, paramedical services, and pharmaceutical products recorded significant increases during the year. Furthermore, essential food items such as bread and cereals, potatoes, yam & other tubers, meat, fish, fruits, vegetables, oils & fats became out of reach for some middle- and low-income earners as food inflation rose significantly from 14.67% in January 2020 to 18.3% in November 2020 (*see Illustration 32*).

Illustration 32: Selected Food Prices for November 2020



SELECTED FOOD PRICES FOR NOVEMBER 2020

Item	(N) NOV-19	(N) NOV-20	(%) YOY
BREAD SLICED 500G	299.6	328.5	9.66
BREAD UNSLICED 500G	280.5	307.0	9.45
BROKEN RICE (OFADA)	396.9	462.5	16.55
CATFISH (OBOKUN) FRESH	1027.8	1066.1	3.73
CATFISH :DRIED	1723.2	1725.5	0.13
CATFISH SMOKED	1501.3	1537.3	2.40
CHICKEN FEET	686.7	729.1	6.18
CHICKEN WINGS	893.0	978.4	9.56
DRIED FISH SARDINE	1423.2	1479.8	3.98
EVAPORATED TINNED MILK CARNATION 170G	157.2	166.1	5.63
EVAPORATED TINNED MILK(PEAK), 170G	183.6	197.4	7.57
FROZEN CHICKEN	2008.4	1937.0	-3.56
GARI WHITE, SOLD LOOSE	160.1	241.2	50.73
GARI YELLOW,SOLD LOOSE	181.3	268.0	47.83
GROUNDNUT OIL: 1 BOTTLE, SPECIFY BOTTLE	580.0	656.8	13.23
ICED SARDINE	956.8	1014.9	6.08
IRISH POTATO	289.2	319.5	10.46
MACKEREL : FROZEN	951.7	1028.0	8.02
YAM TUBER	203.2	236.2	16.26
MAIZE GRAIN WHITE SOLD LOOSE	149.6	204.9	36.97
MAIZE GRAIN YELLOW SOLD LOOSE	151.6	204.4	34.77
MUDFISH (ARO) FRESH	1002.7	1021.7	1.89
MUDFISH : DRIED	1756.4	1751.0	-0.31
ONION BULB	226.1	379.4	67.83
PALM OIL: 1 BOTTLE,SPECIFY BOTTLE	466.9	542.9	16.26
PLANTAIN (RIPE)	218.0	238.9	9.60
PLANTAIN (UNRIPE)	203.5	216.2	6.24

SELECTED FOOD PRICES FOR NOVEMBER 2020

Item	NOV-19 (N)	NOV-20 (N)	YOY (%)
RICE AGRIC SOLD LOOSE	384.0	450.1	17.20
RICE LOCAL SOLD LOOSE	344.0	404.6	17.61
RICE MEDIUM GRAINED	378.5	444.9	17.55
RICE,IMPORTED HIGH QUALITY SOLD LOOSE	445.5	550.0	23.46
SWEET POTATO	146.6	160.9	9.76
TILAPIA FISH (EPIYA) FRESH	859.5	869.2	1.12
TITUS:FROZEN	975.4	1052.3	7.89
TOMATO	251.2	316.2	25.86
VEGETABLE OIL: 1 BOTTLE,SPECIFY BOTTLE	512.5	630.9	23.09
WHEAT FLOUR: PREPACKED (GOLDEN PENNY 2KG)	673.5	750.0	11.36

Source: NBS

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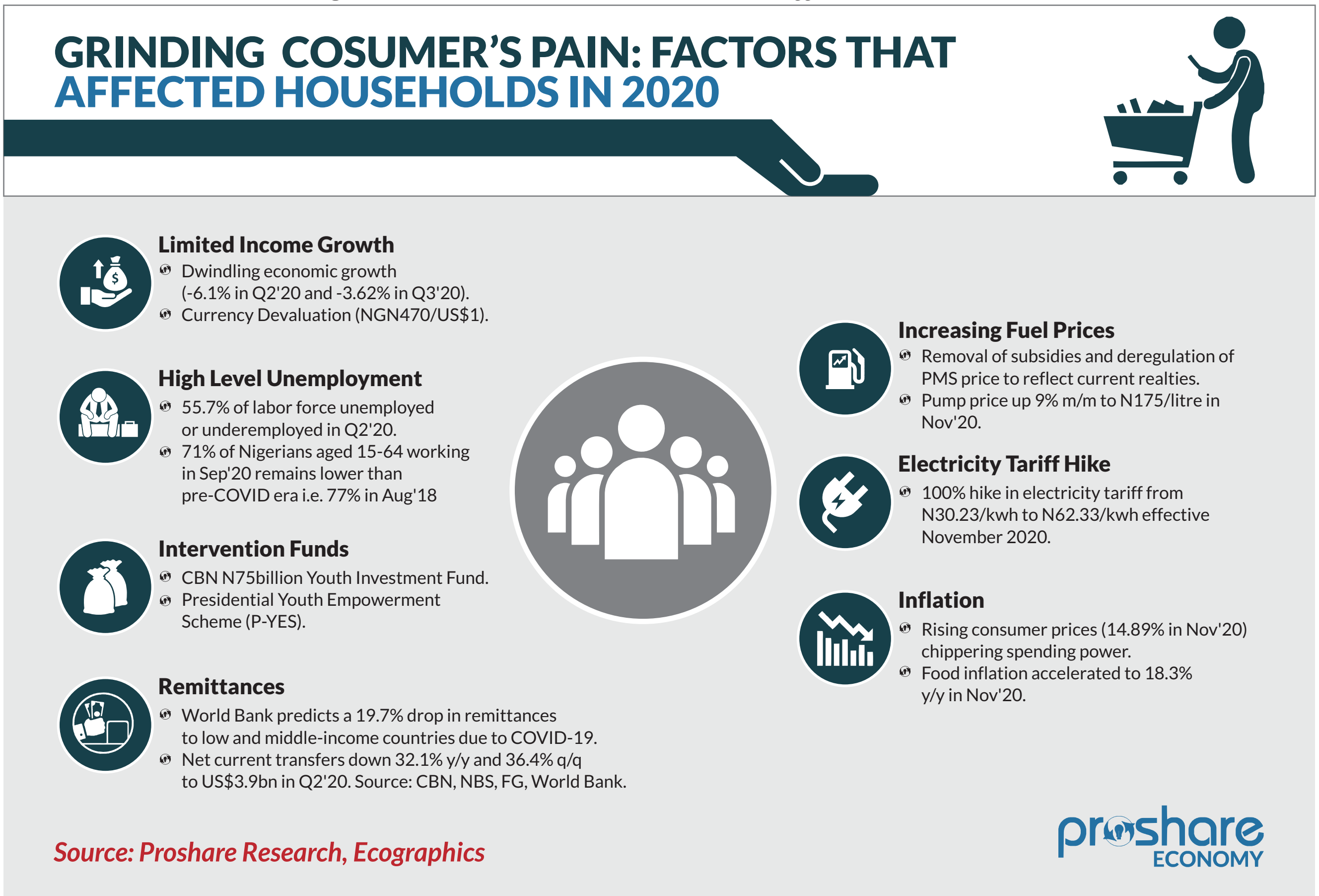
The Growing Food Gap

Household consumption was worsened by the COVID-19 pandemic, as well as other government policies in 2020. According to the most recent data released by NBS, household consumption expenditure declined Y-o-Y by -0.08% in Q2 2020. Household consumption declined from N10.134trn in Q2 2019 to N10.126trn in Q2 2020. While in Q1 2020, household consumption expenditure declined Y-o-Y by -4.03%, as it declined from N9.53trn in Q1 2019 to N9.147 in Q1 2020.

Towards the end of the year, the government announced that there would be a removal of fuel subsidy and the deregulation of PMS to reflect current realities. Within the same timeframe, the Nigerian Electricity Regulatory Commission (NERC) announced a new tariff regime dubbed service reflective tariff. Many analysts noted that both policies though critical for the development and growth of the economy were ill-timed and would further impoverish Nigerian citizens, as the stimulus employed by the government to drive a rebound was insufficient (*see Illustration 33*).

Illustration 33: ***Grinding Consumer's Pain: Factors that Affected Households in 2020***



Nigerian Households: Riding a Carousel

Many factors that shaped household spending in 2020 are likely to influence their welfare and spending in 2021. While some of these factors would affect all categories of households, there would be varying degrees of impact on different household income categories. It is projected that in 2021, the inflation rate would be an important factor that will shape the household's welfare and spending pattern. An increase in the inflation rate would have a severe negative impact on low-income earners i.e., a decline in their purchasing power and an increase in the cost of living. On the other hand, high-income earners would not feel so much of the brunt.

Furthermore, the implementation of the service reflective tariffs and the increase in the PMS would affect all Nigeria income class, but the greater impact would be felt by low-income earners who are already struggling to survive. The VAT increase in 2020 would still shape consumption spending in 2020. It had the most severe impact on the low-income earners while it is assumed that high-income earners have enough buffers to insulate their living standard from any rise in VAT charges. Other factors that would likely shape household welfare and spending in 2021 include, but are not limited to, devaluation of the exchange rate, the slow roll-out of the COVID-19 vaccine, low remittances, and the possibility of another lockdown (*see Illustration 34*).

Illustration 34: ***Nigerian Households: Riding a Carousel***

NIGERIAN HOUSEHOLDS: RIDING A CAROUSEL

Factors	Low Income Earners	Middle Income Earners	High Income Earners
Inflation Headline Inflation ↑ e.g 14.89% Nov'2020 Food Inflation ↑ e.g 18.3% Nov'2020	**Severe Impact** Reduction in real income. Increase in misery level. Decline in standard of living.	**Less Severe Impact** Reduction in real income.	**Little/No Effect Impact** Reduction in returns on investment.
Devaluation of the exchange rate. N307/$1 to N360/$1 - March 20, 2020. ↓ N360/$1 to N380/$1 August 6, 2020. ↓	**Severe Impact** Increase in cost of living. Decline in purchasing power.	**Severe Impact** Increase in the cost of living.	**Severe Impact** Decline in purchasing power e.g., luxury goods imported becomes more expensive.
PMS Increase ↑	**Severe Impact** Increase in cost of transportation. Rise in cost of goods and services would cause a decline in standard of living.	**Less Severe Impact** Increase in cost of mobility. Rise in cost of goods and services (marginal impact on income).	**Little/No Effect Impact** Increase in the cost of mobility. Rise in cost of goods but no severe impact on standard of living.
Service Reflective Tariff ↑	**Severe Impact** Increased burden and cost of living.	**Less Severe Impact** Rising but smaller adverse effect on income.	**Little/No Effect Impact** Minimal impact on disposable income.
Lockdown	**Severe Impact** Decline in income sources. Further impoverished.	**Severe Impact** Decline in income.	**Less Severe Impact** Built enough buffers.
VAT Increase ↑ From 5% to 7.5%	**Severe Impact** Decline in purchasing power.	**Severe Impact** Decline in purchasing power with lower severity.	**Less Severe Impact** High earning capacity helps withstand VAT increase.

Source: Proshare Research, Ecographics

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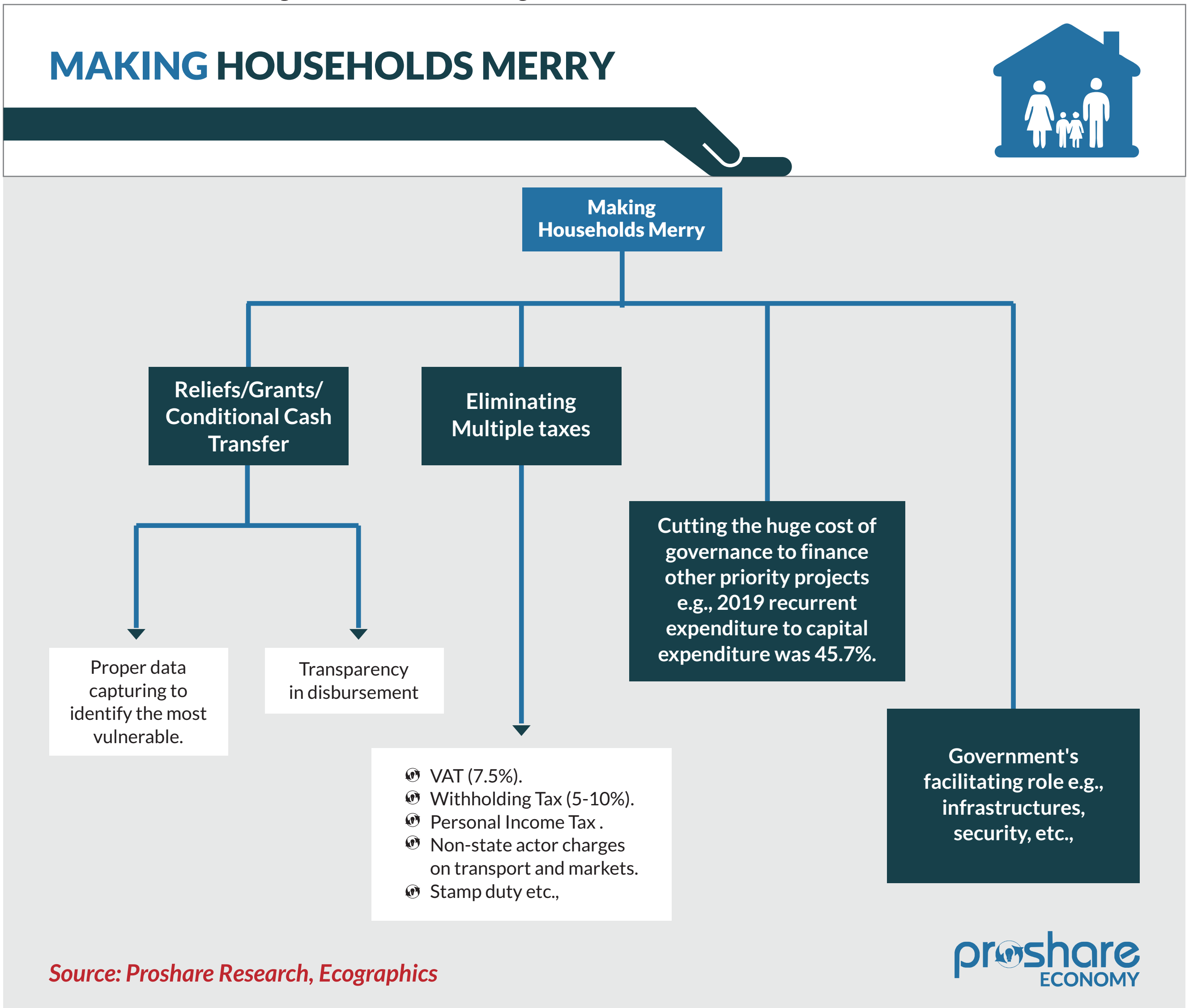
Making Households Merry

The major focus for the government in 2021 would, or at least should, be improving the welfare of citizens. The World Bank has projected that about 150m would fall into extreme poverty by 2021, therefore, intensifying the call for the government to focus on measures in bridging the inequality gap, reducing the poverty rate, and increasing the welfare of its citizens. The government should intensify efforts in eliminating all forms of multiple taxations that can stifle out business start-ups, and provide necessary infrastructures e.g., regular power supply, security, etc., that would induce an efficient bu. Furthermore, it is the onus of the government to cuts its huge recurrent expenditure which could be utilized for other priorities with a greater multiplier effect on the economy e.g., more reliefs, grants, and conditional cash transfers (*see Illustration 35*).

Illustration 35: ***Making Households Merry***



Conclusion-Facing Down Poverty

The new year 2021 would require new tactical approaches to poverty reduction to head off social disruption in the year. The series of micro interventions by the CBN and fiscal authorities would have minimal impact in the present year as economic multipliers linked to the microcredit schemes are low. To accelerate growth and reduce both unemployment and inflation institutional and infrastructural constraints inhibiting business expansion must be faced down firmly.

The role of non-state actors in revenue leakages must be sizably reduced if not, eliminated, and the leakages in public spending cut. If the year 2021 is to be an improvement over 2020 old ways of doing things need to be revised and replaced with new vision, broader compassion, and data-driven execution. Nobody can plan what is not measured.

Inside A Perfect Storm: Monetary And Fiscal Sword Fencing

Inside A Perfect Storm: Monetary And Fiscal Sword Fencing

The ravaging effect of the COVID-19 pandemic pressured governments around the globe into coming up with various heterodox monetary and fiscal policies to negate the effects of the virus on the growth of the economy. Advanced economies with a robust fiscal balance were able to pass huge fiscal stimulus bills and packages while frontier economies already struggling could not provide a huge stimulus package for its citizens. The pandemic further necessitated the need for developing and less developed nations to build a huge fiscal structure that could trigger the growth of the economy as a cushion for future black swans. To help poor countries to cope with the negative effects of the coronavirus on their economy, the G-20 and China agreed on the restructuring of loans and granting of moratoriums to the world's poorest countries.

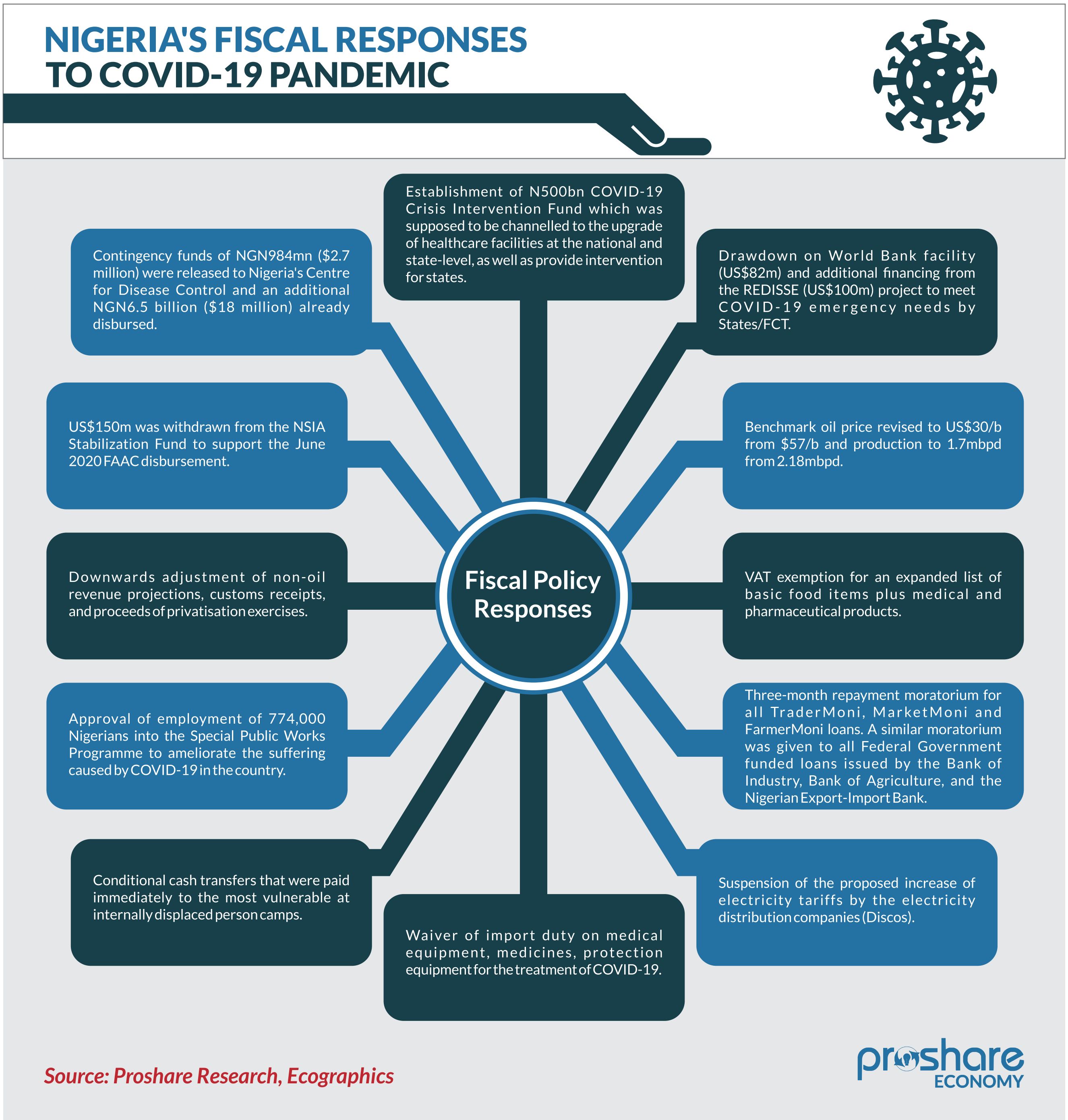
The monetary policy took an unusual dimension in 2020. Different economies have adapted monetary policies best suited for their economy. Economies, with already low interest or negative interest rate such as Japan, the US, Australia, etc, had to utilize a ***"fiscmon"*** policy mix as there was less headroom for a further cut in interest rate to effectively trigger growth in credit to the real sector to boost productivity. On the other hand, economies with high-interest rates could make head rooms for a reduction in interest rates. It should be noted that the adoption of these policies is peculiar to each economy e.g., Nigeria has a high-interest rate of 11.5% but due to its low level of productivity, its inflation rate as of November 2020 stood at 14.89%. Therefore, despite the incentive to reduce the interest rate to trigger credit growth, monetary policymakers would be cautious because of Nigeria's high inflation rate.

Nigeria's Fiscal Policy

Nigeria's attempt to bolster growth in 2020 was hindered by the COVID-19 pandemic. Its major source of foreign export revenue which is oil was severely affected by the pandemic. The fall in the oil demand was attributed to lockdowns implemented in various countries to prevent further transmission and pressure on health facilities.

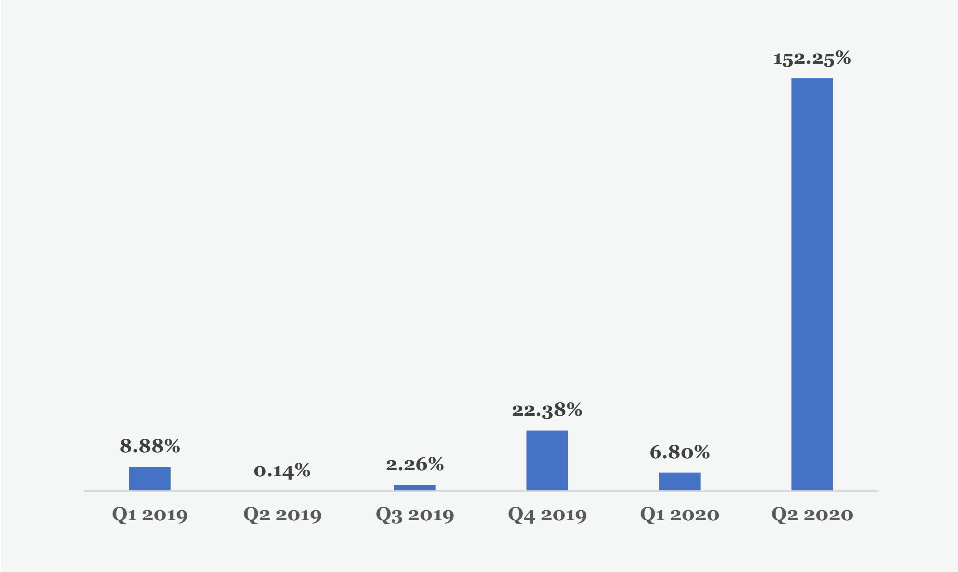
Therefore, attempts to trigger economic rebound through fiscal policy were limited as Nigeria was already battling low-income revenue, high debt servicing, and low investment, etc. Despite the paucity of income, the Federal Government came up with different schemes to help Micro, Small and Medium Enterprises, as well as its citizens, cope with the pandemic. For example, the Federal Government came up with a N75bn MSME Survival Fund which was aimed at supporting vulnerable micro and small enterprises in meeting their payroll obligations, and safeguard jobs in the MSMEs sector. Also, the federal government established a N500bn COVID-19 crisis intervention fund which was supposed to be channeled to the upgrade of healthcare facilities at the national and state-level, VAT exemption for an expanded list of basic food items plus medical and pharmaceutical products, suspension of the proposed increase of electricity tariffs by the electricity distribution companies, three-month repayment moratorium for all TraderMoni, MarketMoni and FarmerMoni loans and the extension of the moratorium on loans issued by the Bank of Industry, Bank of Agriculture and the Nigerian Export-Import Bank, etc. Despite these schemes and stimulus programs, many economic experts expressed pessimism on the effectiveness of these policies in triggering a rebound in economic activity and growth.

Illustration 36: ***Nigeria's Fiscal Responses to COVID-19 Pandemic***



COVID-19 relief spending was evident in the increase in government expenditure in Q2 2020. Government spending for Q2 2020 increased by +152.25% to N2.34trn from N928.26bn in Q2 2019 (*see Chart 21*).

Chart 21: ***General Government Final Consumption Expenditure Growth Rate (%)***



Source: NBS, Proshare Research

Furthermore, to cope with the present realities caused by the pandemic virus, the government decided to adjust its budgets (*see Table 15*).

Table 15: ***Overview of the 2021-2023 MTRF***

OVERVIEW OF THE 2021-2023 MTRF

Federation Account Revenues (2021-2023)

FISCAL ITEMS	2020 Revised Budget	2021 Projected	2022 Projected	2023 Projected
Budget Oil Production Volume Net Incremental Oil Production for Repayment Arrears (mbpd)	1.8	1.86	2.09	2.38
Projected Budget Benchmark Price (US$ per barrel)	28	40	40	40
Average Exchange Rate (N/US $)	360	360	360	360
NET FEDERATION ACCOUNT	4,893,871,873,398	6,716,252,560,381	7,863,988,644,285	8,633,955,060,301
Transfer to Police Trust Fund(0.5% of Fed. Acct)	24,469,359,367	41,588,404,18	45,325,299,256	47,673,792,327
NET FEDERATION ACCOUNT (after 0.5% transfer to Police Trust Fund)	4,869,402,514,031	6,674,664,156,200	7,818,663,345,029	8,586,281,267,974
Net Oil Revenue after Costs, Deductions & Derivation	2,090,239,792,299	4,090,852,736,865	4,665,563,949,852	5,331,705,103,312
Dividend Payment (NLNG)				
Net Solid Minerals Revenue after Derivation	3,908,604,642	5,464,729,697	6,011,202,666	6,612,322,933
Net Corporate Tax Distributable	1,694,159,591,664	1,405,604,726,453	1,777,644,067,841	1,834,954,611,150

FISCAL ITEMS	2020 Revised Budget	2021 Projected	2022 Projected	2023 Projected
Net Customs Revenue Distributable	929,272,831,724	1,047,978,550,179	1,227,855,299,079	1,266,916,145,143
Net Special Levies Distributable	141,145,505,197	124,763,413,007	141,588,825,590	146,093,085,436
Actual Balances in Special Accounts	10,676,188,505			
Distribution				
FGN's Share of Federation Account (52.68%)	2,565,201,244,392	3,516,213,077,486	4,118,871,850,162	4,523,252,971,969
States' Share of Federation Account (26.72%	1,301,104,351,749	1,783,470,262,537	2,089,146,845,792	2,294,254,354,803
Local Govt.'s Share of Federation Account (20.60%)	1,003,096,917,890	1,374,980,816,177	1,610,644,649,076	1,768,773,941,203
Total Federation Account Distribution (Net) (100.00%)	4,869,402,514,031	6,674,664,156,200	7,818,663,345,029	8,586,281,267,974
NET VAT POOL ACCOUNT DISTRIBUTABLE	2,029,386,290,994	1,703,044,482,541	1,814,180,937,067	1,879,068,876,704
FGN's' Share of VAT Pool Account (15%)	304,407,943,649	255,456,672,381	272,127,140,560	281,860,331,506
States' Share of VAT Pool Account (50%)	1,014,693,145,497	851,522,241,271	907,090,468,533	939,534,438,352
Local Govt.'s Share of VAT Pool Account (35%)	710,285,201,848	596,065,568,889	634,963,327,973	657,674,106,846
Total VAT Pool Account Distribution (Net) (100.00%)	2,029,386,290,994	1,703,044,482,541	1,814,180,937,067	1,879,068,876,704

Source: Ministry of Finance, Budget and National Planning

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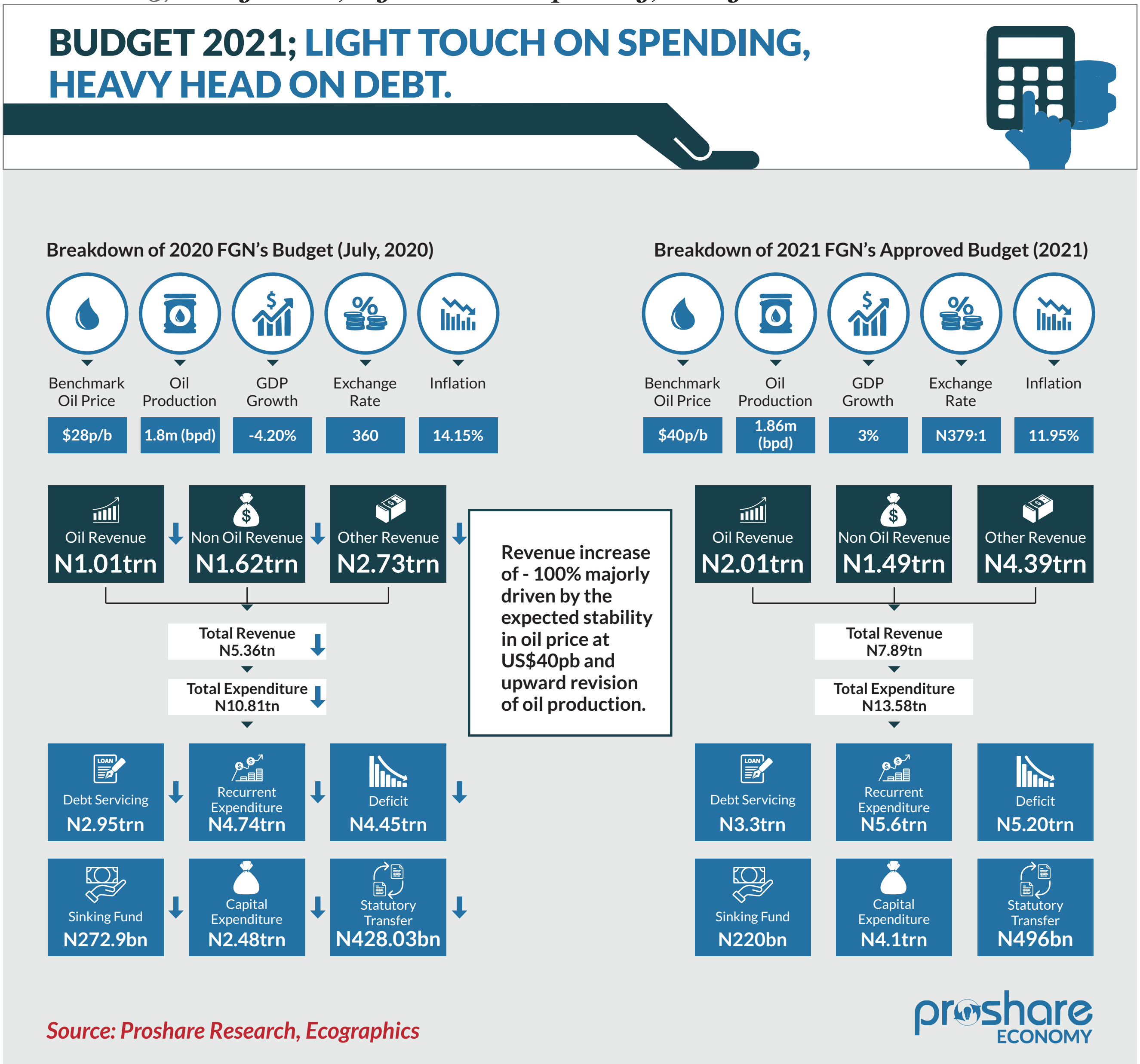
Examining Nigeria's 2021 Budget

Critical to the growth and recovery of economic activities is the Nigerian budget. Last year the Nigerian government reverted to the January-December budget cycle. While the budget for the 2021 fiscal year has been passed by the Nigerian National Assembly, it is vital to review some of the assumptions and propositions of the budget to examine how effective the budget size is in triggering an expected recovery from recession in 2021.

Nigeria's planned expenditure for the 2021 fiscal year increased by +25.62% to N13.58trn from N10.81trn in 2020. Also, there was an increase in the planned capital expenditure by +65.32% and recurrent expenditure by +18.14% for 2021 when compared to the previous year. 2021 planned capital expenditure and recurrent expenditures are N4.1trn and N5.6trn, respectively. Although, the planned increase signifies the government's commitment to triggering a recovery in economic activities the huge debt servicing size of N3.3trn and the budget deficit of N5.20trn stands out as a major source of concern to most economic analysts. Furthermore, the budget size is predicated on oil revenue which has shown a high level of uncertainty over the years and hence further emphasized the need for diversification of Nigeria's revenue (*see Illustration 37*).

Illustration 37: ***Budget 2021; Light Touch on Spending, Heavy Head on Debt***



Budget Deficit Bogey – Figuring out Fiscal Policy

Given that Nigeria's budget is predicated on certain assumptions it is pertinent to examine how realistic some of these assumptions are. Nigeria's benchmark oil price for the planned 2021 budget is $40 per barrel. The high level of uncertainty caused by the COVID-19 pandemic has made it difficult to predict the future price and demand for oil. The commencement of the vaccination of citizens in advanced economies has signaled positive news for oil price recovery in 2021. However, the recent discovery of a new strain of coronavirus has posed a risk for oil price recovery.

Furthermore, a GDP growth rate of +3% in 2021 is ambitious given that high level of insecurity, poor infrastructural facilities, corruption, and high cost of governance persist. Also, Nigeria's inflation rate stood at 14.89% as of November 2020. An uptick in headline inflation may further be exacerbated in 2021 given inherent structural bottlenecks and the high cost of doing business.

On the other hand, the exchange rate assumption of N379/$1 would depend on CBN's policy decision in stabilizing the exchange rate. On the back of the inherent supply and demand liquidity challenge, there may be another round of adjustment to drive rates alignment and a more realistic fair value (*see Illustration 38*).

Illustration 38: ***Budget Deficit Bogey – Figuring out Fiscal Policy***

THE BUDGET DEFICIT BOGEY-
FIGURING OUT FISCAL POLICY

	2020 Revised	2021	Key Drivers and Implications
Benchmark Oil Price ($)	28	40	Oil price at $40 appears realistic considering the EIA average forecast ($46) in 2021. However, a second wave may threaten oil price below.
GDP Growth	-4.20%	3%	A GDP growth of 3% is an ambitious one considering a 0.82% in 2017 post recession growth. IMF forecasted a growth of 1.7% for Nigeria.
Oil Production (mbpd)	1.8%	1.86%	OPEC and allied producers to reduce output cuts of 7.7 million barrels per day (bpd) by around 2 million bpd from January. This may affect Nigeria's 1.7mbpd in 2021.
Exchange Rates N/$	360	379	On the back of inherent supply and demand FX liquidity challenge, there may be another round of adjustment to drive rates alignment & a more realistic fair value.
Inflation	12.5%	11.95%	Inflation stood at 14.23% in October 2020. Uptick in headline inflation may further be exacerbated in 2021 given inherent structural bottle necks and high cost of doing business.

Source: Budget documents, Proshare Research, Ecographics

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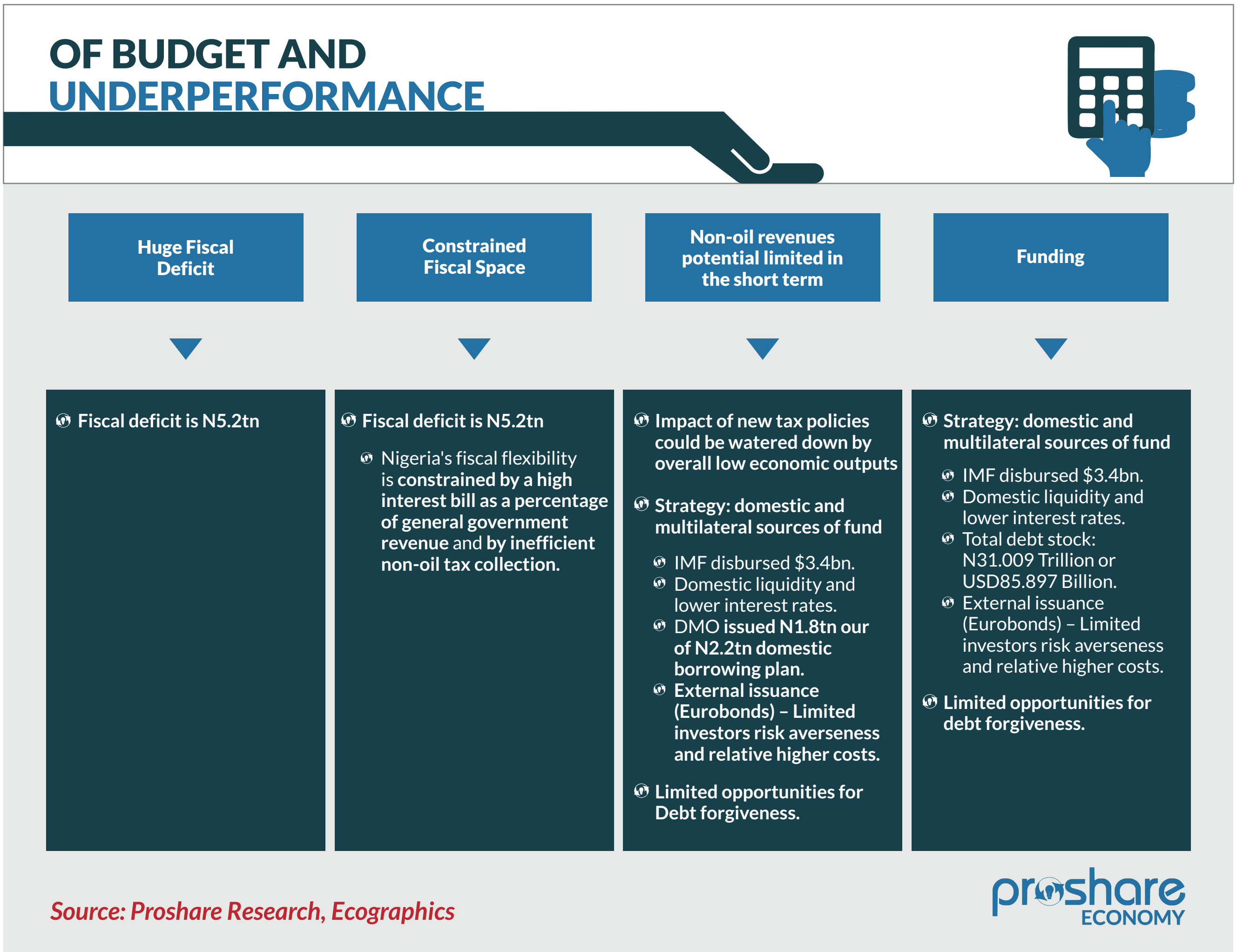
There are valid fears by some analysts that Nigeria's planned budget for 2021 would likely underperform given its constrained fiscal space e.g., a planned fiscal deficit of N5.2trn, non-oil revenues potential limited in the short term, limited funding, and uncertainty as regards oil revenue (*see Illustration 39*).

Illustration 39: Of Budgets and Underperformance

*Illustration 39: **Of Budgets and Underperformance***



Monetary Policy

Nigeria's quadrilemma of a contraction in GDP of -3.62%, high inflation rate 14.89%, unemployment rate +27.1%, and exchange rate challenges have limited CBN's monetary policy impact in triggering a quick rebound in economic growth. The year 2020 has seen the CBN adopt heterodox policies and assume more of a developmental role e.g., the commitment of N200bn to kickstart the social housing projects, creation of a N50bn targeted credit facility, credit support for the healthcare industry, regulatory forbearance, etc. Some of the development roles assumed by the CBN was necessitated by the need to cushion the economy from the negative effect of the COVID-19 pandemic on the economy. The CBN's six policy steps to help cushion the economy from the adverse effect of the COVID-19 pandemic include the following:

- Temporary and time-limited restructuring of the tenor and loan terms for businesses and households. This should create stability of the lending sector as disruptions to business would make repayments difficult, thereby increasing the non-performing loans (NPLs) of the sector which had gradually started sliding towards the CBN required rate per bank of 5% or less.

- Cutting down of interest rates on intervention programmes from 9% to 5%. The rate cut on intervention fund would cushion the adverse consequence of business disruption that would likely result from production closures, supply chain disruptions, and demand collapse as social distancing and restricted movement lead to lower domestic consumer and producer spending. A N50bn targeted credit facility would be expected to assist in creating liquidity in the domestic credit market. The support of the credit market with an additional N50bn may prove inadequate to repel a recession as it would not address the tricky problems of supply chain disruptions, rising domestic inflation rate (reduced real consumer spending power), and the rising risk of lending into a reclining domestic economy.

- Regulatory forbearance would mean that the CBN would ease the enforcement of strict rules around advancing credit. The relaxed enforcement regime would allow the banks to give customers breathing space to repay loans without suffering heavy charges against their profit and loss accounts by way of impairments. In other words, the CBN would hope to keep the financial system, particularly the credit market, stable. The move is commendable but may not achieve much as the problem would remain the lack of production throughputs to create sellable goods which in turn would generate revenues, profits, and free cash flows.

- Strengthening the loan to deposit ratio (LDR) of banks is obscure. The CBN raised LDR twice in 2019 and banks are still struggling to meet the recent 65% ratio. Pushing banks to lend further in a recessionary environment could adversely impact the industry's falling non-performing loans (NPLs).

- Support for the health care industry is a brilliant initiative, except for the fact that if health care companies cannot import critical inputs to manufacture drugs, no matter how low-interest rates fall or how much credit they can get, the financial situation of pharmaceutical companies may not improve significantly. To get Pharma running supply chains need to be restored and effective demand of consumers augmented.

Table 16: ***The Good, The Bad and The Neutral***

THE GOOD, THE BAD, AND THE NEUTRAL

	Price Stability	External Reserves	Interest Rate Stability	Financial Stability
Interest rate reduction			✓	
Creation of a N50bn targeted credit facility	✓	✓		
Credit support for health care industry	✓			
Regulatory for bearance	✓			✓
Strengthening of the CBN LDR policy	✓		✓	
Extension of moratorium	✓			✓

Source: CBN, Proshare Research

In addition to its six-step policies, the CBN announced an N1.1trn intervention fund to support critical sectors of the economy. It was noted that about N1trn would be used to support the local manufacturing sector as well as intensify import substitution. The remaining N100bn would be used to support the health sector to ensure laboratories, researchers, and innovators work with scientists around the world to patent and produce vaccines and test kits in Nigeria.

CBN MPC's Trilemma; Navigating a Sandstorm

The CBN had on two occasions in 2020 reduced its MPR to trigger the increase in the flow of credit to the real sector of the economy. In May 2020, the MPR was reduced to 12.5% from 13.5%, the CBN stated that it was necessary to stimulate growth of the economy in the face of the COVID-19 challenges. Furthermore, it noted that an accommodative stance through a lowering of policy rates will stimulate credit expansion to critically important sectors that will also stimulate employment and revive economic activities for growth recovery.

The CBN was faced with a trilemma as a result of the effects of the COVID-19 pandemic. Therefore, the MPC reduced the MPR for the second time in July 2020. The MPR was reduced from 12.5% to 11.5%. In justifying the reduction in MPR, the CBN stated that the inflationary pressures was not driven by monetary policies, rather as a result of structural policies. It further stated that liquidity injections are expected to stimulate credit expansion to the critically impacted sectors of the economy, and offer impetus for output growth and economic recovery.

Table 17: ***CBN MPC's Trilemma; Navigating a Sandstorm***

CBN MPC'S TRILEMMA;
NAVIGATING A SANDSTORM

Date	Outcome	Inflation Rate	GDP
January 23-24, 2020	• Retained MPR at 13.5%. • Changed the CRR from 22.5% to 27.5%. • Retained the liquidity ratio at 30%. • Retain the asymmetric corridor of +200/-500 basis points around the MPR.	11.98%	1.87%
March 23-24, 2020	• Retained the MPR at 13.5%. • Retained the CRR at 27.5%. • Retained the Liquidity Ratio at 30 per cent. • Retained the asymmetric corridor of +200/-500 basis points around the MPR.	12.20%	1.87%
May 28, 2020	• Reduced the MPR to 12.5%. • Retained the CRR at 27.5%. • Retained the Liquidity Ratio at 30%. • Retained the asymmetric corridor of +200/-500 basis points around the MPR.	12.34%	-6.1%

Date	Outcome	Inflation Rate	GDP
July, 2020	Reduced the MPR by 100 basis points from 12.5 to 11.5%. Retained the CRR at 27.5%. Retained the Liquidity Ratio at 30%. Adjusted the asymmetric corridor from +200/-500 basis points to +100/-700 basis points around the MPR.	13.71%	-3.62%
November 23 and 24, 2020	Retained the MPR at 11.5%. Retained the CRR at 27.5%. Retained the Liquidity Ratio at 30%. Retained the asymmetric corridor of +100/-700 basis points around the MPR.	14.23%	-3.62%

NB: Inflation rate represents a month lag
GDP figures is for the period

Source: Proshare Research, Ecographics

A Review of Monetary and Fiscal Policies Introduced in Nigeria in 2020

Despite the unprecedented challenges faced in the year 2020, a great deal of policy formulation was carried out by regulators in Nigeria. Material amendments were made to monetary and fiscal policies to address pressing issues which had plagued stakeholders to remedy the flaws in the system and keep the laws up to date with contemporary matters. Perhaps one might conclude that the events of this year created an enabling environment for these changes to be introduced. In this report, the policies which introduced these changes will be discussed and where applicable, a comparison will be drawn between the old and new laws.

Companies and Allied Matters Act (CAMA) 2020

The Act makes significant changes to the way companies are run in Nigeria which are a timely and appropriate response to the peculiar circumstances occasioned by the COVID-19 pandemic in Nigeria. These shall be discussed subsequently.

Perhaps the first and most pertinent change introduced by the Act is that it recognizes virtual annual general meetings and makes further provisions on how they may be conducted. Unlike the old Act, Section 240 of CAMA 2020 provides that only private companies may hold general meetings virtually insofar as there is compliance with the Articles of the company. Additionally, while it is provided under the former CAMA that all general meetings are mandated to be held within Nigeria, all small companies and companies with just one shareholder may hold their general meetings outside of the country. This amendment is highly welcome because it is in tune with not only current technological advancements but also the movement and assembly restrictions imposed in light of the pandemic. The exclusion of public companies from holding virtual general meetings is justifiable in consideration of the extremely large membership held by public companies most of the time which might prevent a virtual meeting from being possible. Under the umbrella of technological advancement is also as regards the recognition of electronic signature. Under the new Act, it is deemed to satisfy the requirements of authentication where needed. Section 176 of the Act provides that electronic instruments of transfer shall be deemed to be valid instruments of transfer.

An additional amendment made to the CAMA is as regards the qualifications of a small company as stated under Section 394. The amendment firstly recognizes that a small company may not always have a share capital. Hence under this law, one might conclude that a partnership may qualify as a small company if it meets the requisite qualifications. The annual turnover was also revised up, presumably to match current economic realities. Hence, while a company with an annual turnover of less than N 2 million would be classified as a small company under the old CAMA, the new Act increases that amount and provides that the turnover of the company must not be more than N 120 million. Additionally, while the value of the net assets of a small company is to be at least N 1 million, under the new Act, a small company's net assets value is to be at least N 60 million.

Thirdly, the Act amends the definition of a substantial shareholder. Under the new CAMA, a substantial shareholder is defined as a party who holds at least 5% of the unrestricted voting rights at general meetings through himself or his or her nominees.
Under the new Act, several amendments were also made to the various obligations which directors have under the Act. Firstly, the remuneration of managers is required to be disclosed to the members of the company at the annual general meeting. The Act also sheds more light on who an independent director is unlike the old law, and goes further to require that every public company shall have at least three independent directors. Additionally, while CAMA 1990 provided that there was no limit on multiple directorships, the new Act provides that a person may not be a director at more than five companies and if so, a director must also disclose multiple directorships where s/he holds such. The Act also makes it mandatory for any person who is a director at more than five public companies to resign as a director from all but five of the companies.

The new CAMA also provides for a procedure for major asset transactions which the old Act was silent upon. The new Act refers to a major asset transaction as a purchase which is beyond the usual course of business of the company, and which as at the day of the decision to conclude the transaction, amounts to 50% or more of the book value of the company's assets, based on the company's most recently compiled balance sheet.

A notable amendment to the Act also relates to the transfer of shareholding in a private company, especially in light of the pending suit between O & O Networks Ltd and Broad Communications Ltd. Under the old CAMA, private companies were obligated to restrict the transfer of shares under their Articles. However, the new law does not make such inclusion mandatory, hence private companies may choose to either incorporate that term into the Articles or not. The principle of pre-emption rights is also codified; thus, shareholders are obliged to offer their shares to an existing shareholder before selling them to a non-shareholder. Additionally, a member or a group of members acting together may not sell their portion of shareholding when they hold a value of more than 50% of their shareholding unless the existing shareholder offers to buy the one belonging to an existing shareholder.

The new law also introduces the concept of limited liability partnership which was not provided formerly and only accommodated under the Partnership Law of Lagos State. However, partnerships may now have limited liability by virtue of the provisions of CAMA 2020.

Another key improvement upon the old state which was introduced by the new CAMA relates to the provisions centred on business rescue and recovery. In other words, under the old Act, administrators were only saddled with their regular responsibility and were not duty-bound to take steps toward the restructuring of the company. Under CAMA 2020 however, whenever administrators undertake their duty, they have a responsibility to rescue the company. When a company is also being wound up or under administration, the directors of said company may also propose a negotiation with the creditors so as to reach an arrangement that can assist them in satisfying the debt.

Section 27 of the Act also provides for minimum share capital and scraps the concept of authorized share capital.

Monetary Policies: Banks and Other Financial Institutions Act

The amendment of the Banks and other Financial Institutions Act after 29 years was lauded by many stakeholders in the financial sector. In the same vein, several provisions contained in the new law have faced criticism for a multiplicity of reasons. Under this section of the report, the new provisions under the law as well as the possible far-reaching implications which it might have shall be examined.

Firstly, Section 3 (5) proscribes any foreign bank or entity which is either unlicensed, without a physical presence in its country of incorporation, or unaffiliated to any financial services group under effective consolidated supervision from operating in Nigeria. Additionally, Nigerian banks are prohibited from establishing any relationship with such an institution. Presumably, this provision is geared at tackling instances of unsupervised foreign financial institutions, particularly those who lack a physical presence and operate online exclusively from providing banking services in Nigeria. On the other hand, Section 8 provides that the CBN may grant a license to a foreign bank or a bank registered in Nigeria to undertake an offshore or domestic bank within a designated free trade or special economic zone in Nigeria.

Section 5 (6) of the Act provides that bank directors, managers, or officers of a bank will be held personally liable where they fail to take reasonable steps to ensure that the bank complies with license requirements stipulated by the law. The Act also revises the penalties which are to be paid for several infractions to reflect current economic realities. Section 52 grants the Federal High Court exclusive jurisdiction to try any offences created under the Act and impose the attendant penalties.
Section 12 (1) provides that this may be done if the Bank conducts its business in an unsound manner or the directors are involved in unsafe practices, the bank is involved in any situation which constitutes a threat to financial stability, is in the opinion of the Bank critically undercapitalized with a capital adequacy ratio below the prudential minimum or any other ratio as may be prescribed by the Bank. However, an issue may arise in the event that the term 'unsafe practices' is to be construed due to the nebulousness of the term. Furthermore, the revocation of the banking license seems like a heavy-handed penalty.

Under the Act, the CBN may suspend the payment or delivery obligations arising out of a contract to which a bank is a party if such bank is adjudged to have failed. The license of the said bank may be revoked if all interventions to rescue it are futile. Section 19 also prevents banks from granting N 3,000,000 in uncollaterized loans to customers without the approval of the Central Bank.
Section 33 of BOFIA 1991 was also removed from the new Act to the extent that the Governor of the CBN no longer has the powers to appoint an officer of the Bank as an examiner. Section 45 which also granted the CBN Governor the power to proscribe a trade union has also been expunged from the recently passed

law. The new provision under the same Section instead protects banks and other financial institutions from any liability which may arise from closure of office as a result of a strike or pandemic. Section 71 grants the CBN the power to regulate the activities of agents via set guidelines. Under the Act, the apex bank also has the authority to regulate cybersecurity issues related to the financial sector through appropriate regulations and guidelines.

Section 74 establishes the Banking Sector Resolution Fund without prejudice to the Asset Management Corporation of Nigeria. Contributions of N10 billion and N4 billion to the Fund are to be made by the Central Bank and the Nigeria Deposit Insurance Corporation respectively on the first business day in each calendar year. However, the Board of the CBN may also determine the amount which is to be paid by both bodies into the Fund. The money in the Fund is tax-exempt, and so are all amounts accruing to and all transactions relating to it. The purpose of the Fund's establishment is outlined under Section 78 and they are to be employed exclusively toward efforts geared toward resolution, for the purposes of providing a loan or overdraft facility to a bank, specialized bank, or financial institution under resolution, payment of the operating costs of a bridge bank, among others.

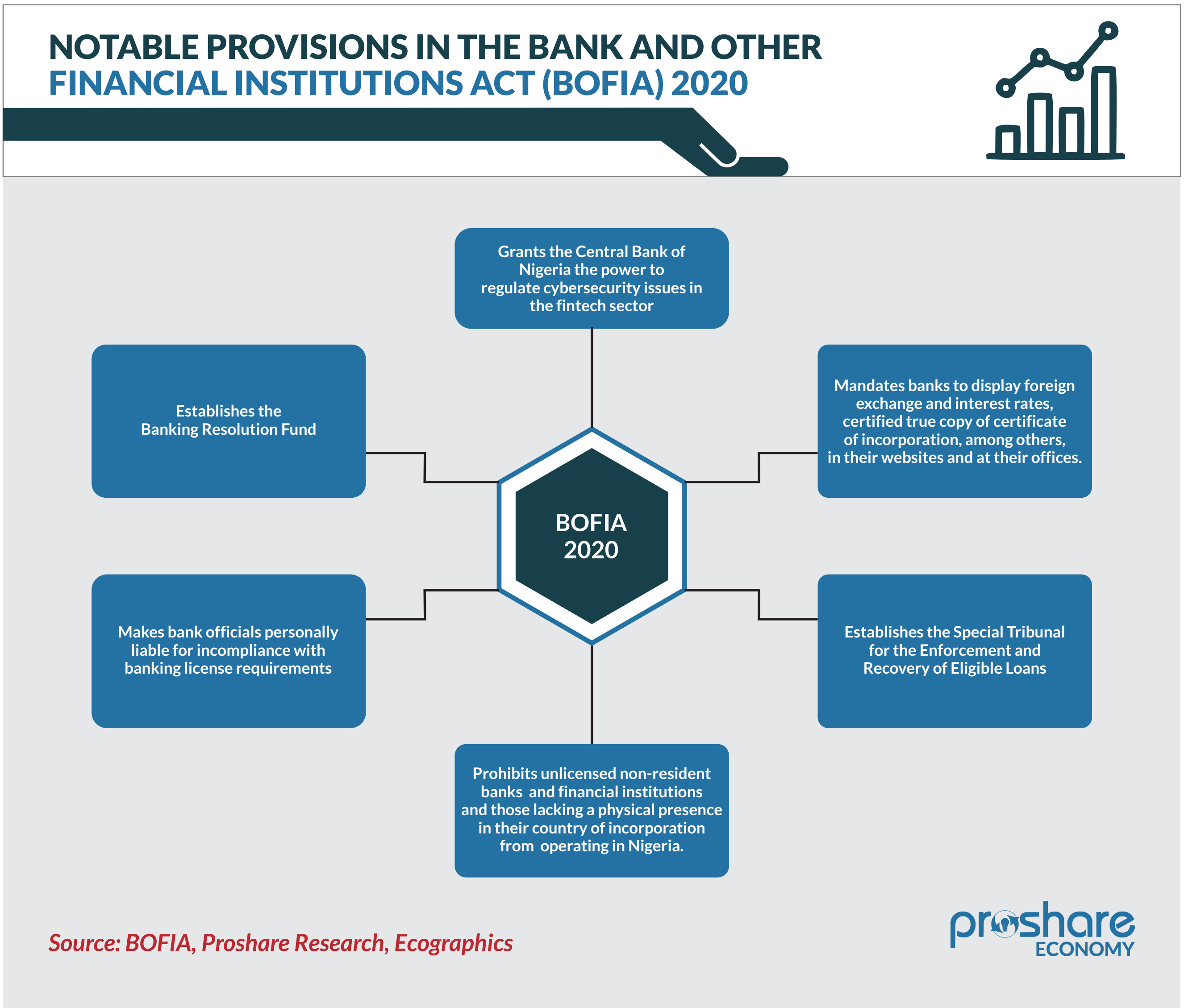
Section 77 also imposes on all banks, specialized banks, and financial institutions a special annual levy which will be an amount equivalent to 10 basis points of its total assets (or any other base points as may be determined by the CBN) as at the date of its audited financial statements for the immediately preceding financial year. This amount is payable on the commencement date or before the 30th of April in the subsequent year.

The Act also establishes the Special Tribunal for the Enforcement and Recovery of Eligible Loans which will have jurisdiction in matters pertaining to the enforcement and recovery of eligible loans, security, guarantee, and attachment of assets made by a bank, specialized bank, or financial institution in Nigeria to its customers. Section 115 (2) provides however that the functioning of the Tribunal is without prejudice to the jurisdiction of the High Courts, except where cases instituted before them fail to be timeously adjudged.

Under the Act, the CBN has the power to prescribe a lower or higher capital adequacy ratio in addition to maintaining the minimum capital ratio. It may also require that banks with holding companies, subsidiaries, or both should calculate and maintain minimum capital ratios on a consolidated basis. A provision is also created as regards the display of information to foster transparency in the banking industry. Banks are mandated now to display information such as lending rates, foreign exchange rates, certified true copies of their certificate of incorporation, and abridged last approved statements of audited accounts at their offices as well as websites. (*See Illustration 40*).

Illustration 40: Notable Amendments Made by Banking and other Financial Institutions Act 2020

*Illustration 40: **Notable Amendments Made by Banking and other Financial Institutions Act 2020***



Fiscal Policies: Finance Act 2019

The Act makes substantial amendments to a multiple legislation viz the: Companies Income Tax Act, Personal Income Tax Act, Value Added Tax Act, Petroleum Profits Tax Act, Capital Gains Tax Act, Customs and Excise Tariff (Consolidation) Act, and the Stamp Duties Act. The new Act aims to achieve among other things, an increase in the tax base, provision of incentives for small businesses by a reduction in their tax burdens, the taxation of significant players in the digital economy, elimination of double taxation, and improving local production via the mechanism of excise duties.

The Act introduces a fundamental provision relating to the taxation of non-resident companies. Companies which provide digital services are regarded as having a 'significant economic presence' in Nigeria and will be subject to companies' income tax. The Significant Economic Presence Order issued by the Minister of Finance provides clarification on what a 'significant economic presence' constitutes, some of which include that the company offers its goods or services through a digital platform in naira, has a domain name ending in '.ng', has a gross turnover equal to or surpassing N25 million derived from the activities listed in the Order, etc. Once enforced, companies such as Facebook, Twitter, Amazon, Airbnb will be liable to pay tax in Nigeria. Although no enforcement mechanism is provided, it is expected that the Federal Inland Revenue Service (FIRS) will lay down a set of principles or guidelines in that regard. Additionally, 10% final withholding tax is to be charged on any payments to foreign companies providing technical, management, consultancy, or professional services.

While small businesses are exempt from companies' income tax, middle-sized businesses are charged at a rate of 20%. It is expected that easing the tax burdens of small businesses will foster their growth. Companies participating in agribusiness are to enjoy a tax holiday of five years, and real estate investment companies will be exempt from withholding tax on dividend and rental income received by it inasmuch as 75% of that amount is distributed within 12 months after the end of the financial year. Compensating payments which qualify as dividend or interest received by an approved agent from a borrower or lender in a Regulated Security Lending Transaction and compensating payments which qualify as dividends under Section 9 of the Finance Act.

To encourage the prompt payment of taxes, middle-sized and large businesses which remit CIT 90 days before the due date are also granted 1% and 2% of the tax paid as credit against future taxes. The Act additionally makes further provisions under which CIT will not be paid on excess dividends and they include those paid out of retained earnings that have been taxed under the CITA, PITA, PPTA, and CGTA, paid out of tax-exempt and franked investment income by a real estate investment company from its rental or dividend incomes. Section 43 of the Companies Income Tax Act which imposed taxes on interim dividends was repealed.

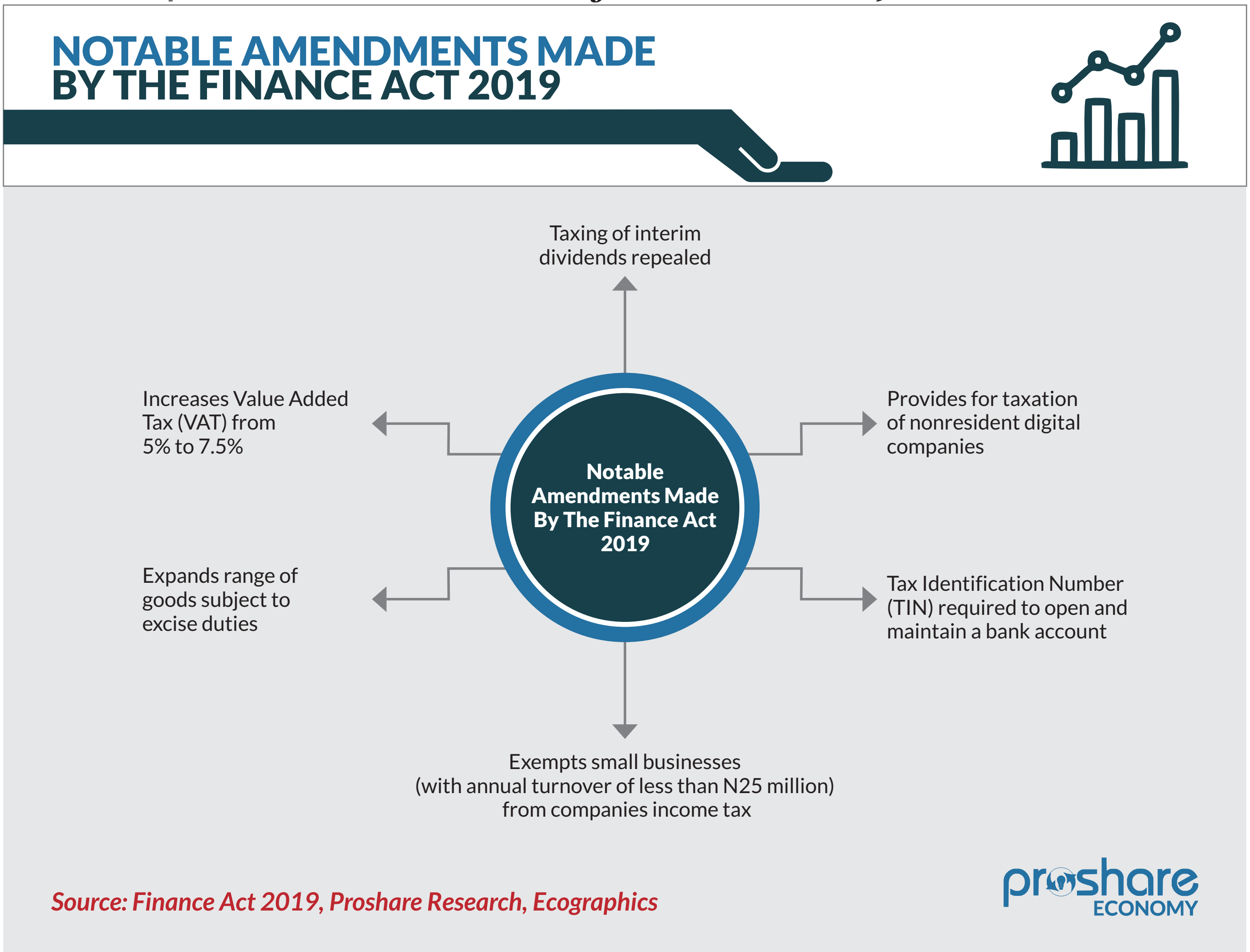
The Petroleum Profits Tax Act also was amended to the extent that profits that have been subject to petroleum profits tax will be subject to 10% withholding tax. However, shareholders who reside in a country that has signed a double tax treaty with Nigeria will be taxed at a reduced rate of 7.5%.

Amendments were also made to the Personal Income Tax Act. Under the Finance Act, a Tax Identification Number is required to open or maintain a bank account. The Act also repeals references to the reliefs for dependants and children. Taxpayers are also permitted to deliver a notice of objection as a response to a notice of assessment.

The Value Added Tax Act was additionally amended. The VAT rate was increased from 5% to 7.5% and the category of goods and services subject to it was expanded under the recently passed law. Goods are liable to VAT if they are supplied in Nigeria and physically present at the time of supply, imported, installed, or assembled in Nigeria, and where the beneficial owner of the rights in or over the goods is in Nigeria. It is also applicable where the rights in relation to said goods are either exercisable, situate, or registered in Nigeria. Exported services which refer to those rendered by a resident of Nigeria to a person who is outside Nigeria will not be subject to VAT. Taxable persons (which includes businesses) are also required to register for VAT on the first day of business commencement, except small businesses that have a turnover of less than N25 million.

The Act also expands the range of goods subject to excise duties to spur local production and eliminate overdependence on imports. (*See Illustration 41*).

Illustration 41: ***Notable Amendments Made by The Finance Act 2019***



Finance Act 2020

The Act which commenced on the 1st of January 2021 makes amendments to the Capital Gains Tax Act, Companies Income Tax Act, Personal Income Tax Act, Tertiary Education Trust Fund (Establishment) Act, Customs and Excise Tariff, etc. (Consolidated) Act, Value Added Tax Act, Federal Inland Revenue Service Act, Fiscal Service Act, and Public Procurement Act.

It commences by exempting companies that engage in primary agricultural production from paying companies income tax on any interest payable on a foreign loan. The scope of activities amounting to 'primary agricultural production' is delineated by the Act and encompasses primary crop, livestock, fishing, and forestry production. This redefinition is also recognized in the amendment of the Industrial Development (Income Tax Relief) Act.

In light of the economic challenges occasioned by the COVID-19 pandemic, the Act also introduces a reduction in the minimum tax rate from 0.5% to 0.25% for tax returns which were prepared and filed as regards financial years ending on any day between 1st January 2020 and 30 December 2021. Similarly, Section 7 provides that donations made by corporations to the COVID-19 Crisis Intervention Fund or any agency affiliated with the federal government for the purpose of assisting with the hardships created by the COVID-19 will be tax-deductible. This also applies to donations that aim to assist a Fund or initiative established for the purpose of offering aid during pandemics, natural disasters, and other exigencies. If the donations were in kind, the value of such goods and the costs required in manufacturing and purchasing them will be tax-deductible.

Section 10 also amends the Companies Income Tax Act to the extent that foreign companies which are taxable in Nigeria are liable to submit a return for the year of assessment. The law also requires that the returns include duly completed Companies Income Tax Assessment Form and the audited financial statement of the company and that of its Nigerian operations. Tax computations based on the profits to which the operations of the Nigerian company may be attributed must also be included.
The Personal Income Tax Act also was amended to the extent that where an individual, executor, or trustee outside Nigeria is involved in any business that includes rendering technical, consultancy, professional or management services to a party resident in Nigeria, the profits of said business shall be considered to be derived from Nigeria and subject to tax insofar as the company has significant economic presence within Nigeria.

Section 24 also amends the Tertiary Education Trust Fund Act and provides that the annual tertiary education tax will be paid except by a small company. Section 46 also amends the Value Added Tax Act to include animal feed as a basic food item.

Section 34 further provides that the Federal Inland Revenue Service may appoint a digital platform, an operator of same, or a payment processing company as an agent for the purpose of collecting and remitting taxes due on transactions by non-resident companies which provide digital services to and from a person in Nigeria where said transactions are carried out through remote, digital, or electronic platform. Presumably, this provision is ancillary to that contained in the 2020 Finance Act which allows for the taxation of non-resident digital companies with significant economic presence in Nigeria as a way of enforcing same.

The Act also provides for a COVID-19 fiscal stimulus response by creating a Crisis Intervention Fund. The sum of N500 billion or any other sums stated by the National Assembly shall be funnelled into it from the Intervention Consolidated Revenue Fund and utilized for the purpose of meeting any exigencies which may arise because of the COVID-19 pandemic. An Unclaimed Dividends Trust Fund was also created as a sub-fund and will hold funds sourced from dividends of a public limited liability company which have remained unclaimed for a period exceeding three years from the date on which such dividends were declared. This provision is equally applicable to dividends which have already been transferred to the company reserves as a result of having been unclaimed for more than 12 years before the commencement of the Act. These will be deemed transferred into the Fund. The Act further provides that the monies will be absorbed into federal revenue and transferred into the Federation Account. However, if claims to any part of the unclaimed dividend are established prior to its transfer into the Federation Account, such will be recognized and the dividend will be paid (*See Illustration 42*)

Illustration 42: ***Notable Amendments Made by the Finance Act 2020***

FINANCE ACT 2020

Some highlights of the Act which came into force on 1st January, 2021 include:

1. Reduction in duties on tractors from 35 to 10 per cent
2. Reduction in duties on motor vehicles for the transportation of goods from 35 to 10 per cent.
3. Reduction of levy on motor vehicles for the transportation of persons (cars) from 35 per cent to 5 per cent.
4. Exemption of small companies from payment of education tax under the Tertiary Education Trust fund (TETFUND) -companies with less than N25m turnover are eligible
5. 50 per cent reduction in minimum tax; from 0.5 per cent to 0.25 per cent for gross turnover for financial years ending between January 1st, 2020 and December 31st, 2021.
6. Granting of tax relief to companies that donated to the COVID-19 relief fund under the private sector coalition (CACOVID).
7. Clarification that only compensation for loss of office up to N10million would be tax-exempt. (Clarification that it is the employer's obligation to account for tax on payments relating to compensation for loss of office.)
8. Introduction of software acquisition as qualifying capital expenditure to improve the ease of doing business.

Source: Finance Act 2020, Proshare Research, Ecographics

How Sectors Of The Economy Fared In 2020

How Sectors Of The Economy Fared In 2020

Manufacturing Sector

The COVID-19 pandemic which brought about lockdowns and restrictions had a significant impact on the Nigerian manufacturing sector. The health pandemic exposed the structural deficiencies and efficiencies of the Nigerian economy which is import-dependent. The COVID-19 also brought about a decline in the foreign exchange earnings for the economy whose main FX supplier is oil and consequently dealt a major blow to the manufacturing sector as there was an increase in operational cost and a resulting decline in productivity.

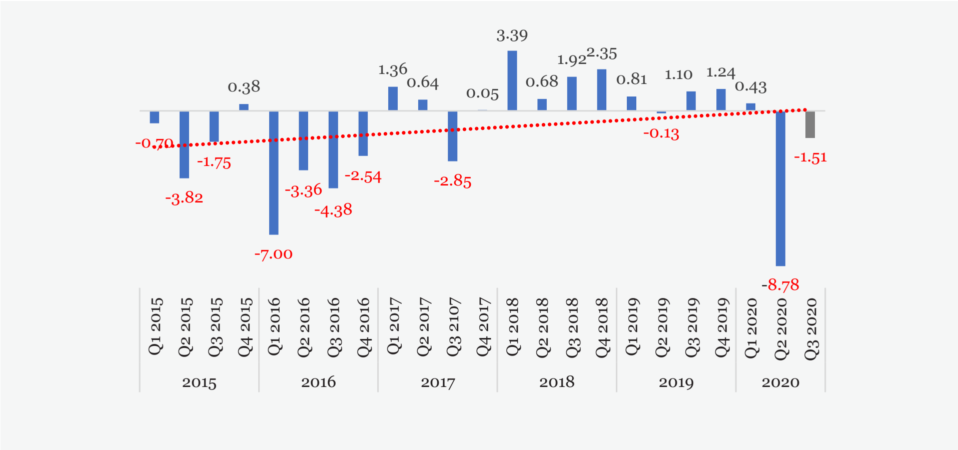
The manufacturing Purchasing Managers Index (PMI) also reflected the impact of the pandemic, the PMI started the year above 50 points which shows an expansion in manufacturing activities, however, in the months that followed there was a steady decline in the PMI. In April 2020, which was the core of the lockdowns and restrictions across major cities in Nigeria, there was no record of PMI. The lull in economic activities affected the manufacturing and non-manufacturing activities. The most recent PMI revealed a contraction of 49.6 points (*see Chart 22*).

Chart 22: Nigeria's Manufacturing PMI January – November 2020

Source: NBS, Proshare Research

Global supply chain shortfalls also affected the manufacturing sector negatively in Nigeria. The manufacturing sector grew less than 1% in Q1 2020. It grew by 0.43%, lower than the Q1 2019 growth rate of 0.81% and Q4 2019 growth rate of 1.24%. Many manufacturers and service providers experienced an acute shortage of raw material and inputs for productions especially inputs sourced from abroad. This shortage harmed capacity utilization, employment generation and loss of jobs, and inadequate supply of products to the domestic market which led to the continuous rise in food inflation and core inflation. The manufacturing sector has also recorded a continuous quarterly decline in its between Q2 and Q3 2020 declining to -8.78% and -1.51% respectively (*see Chart 23*).

Chart 23: ***Nigeria's Manufacturing Sector Growth (%)***



Source: NBS, Proshare Research

Case Study

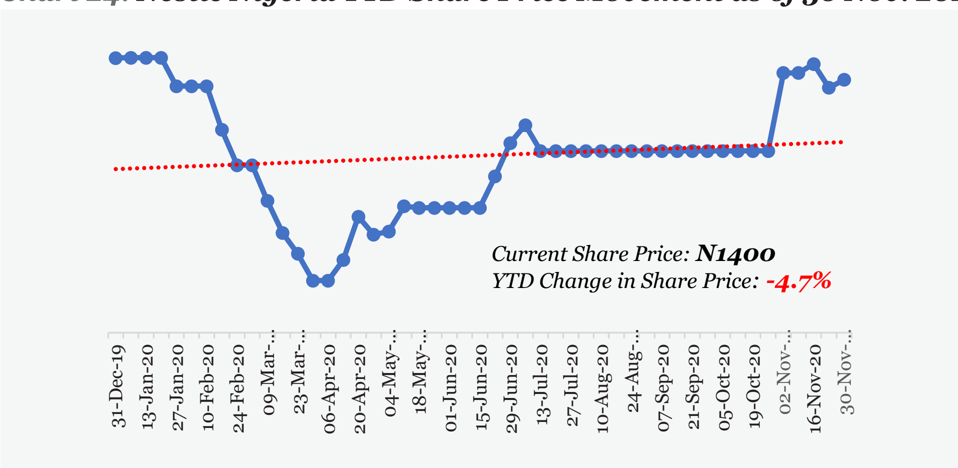
Nestle Nigeria Plc

Nestle Nigeria Plc is a food manufacturing and marketing company. It is engaged in the manufacturing, marketing, and distribution of food products, including purified water throughout the country. It operates through two segments namely: food and beverages.

During the lockdowns and restrictions which led to a downturn in economic activities and put businesses at risk of decline in earnings, essential service providers and essential goods were forecasted to be one of the losers of the COVID-19 pandemic because of a decline in disposable income and input challenges especially for businesses reliant on imported inputs (*see Proshare's* ***Coronanomics*** *Report*).

The major focus of the company's business is essential products, and we see the impact of the pandemic on its share price movement. The share price of Nestle Nigeria Plc started the year on a bullish note as the price was N1,469 in January. However, between March and April, the price went as low as N765, the lowest it recorded in 2020. Prices began to pick up in May as the lockdowns and restrictions were gradually eased. The year-to-date price change as of 30 November was -4.7% (*see Chart 24*).

Chart 24: ***Nestle Nigeria YTD Share Price Movement as of 30 Nov. 2020***



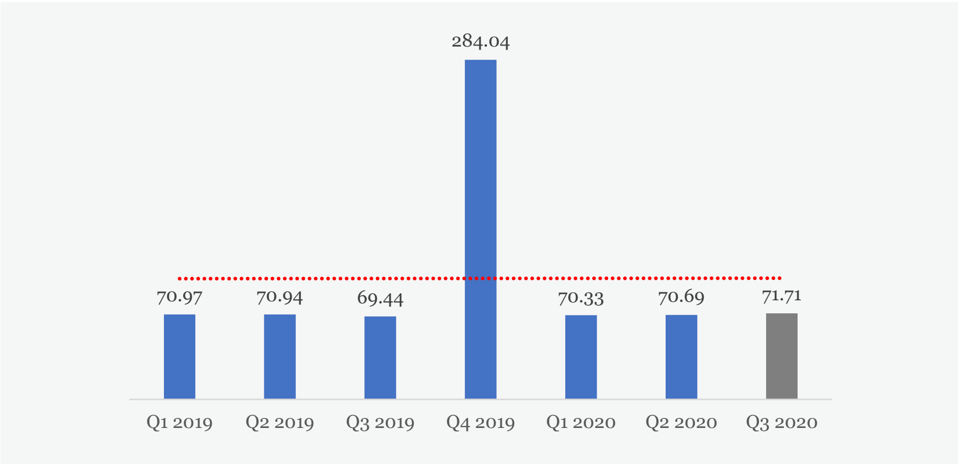
Source: NSE, Proshare Research

Nestle Nigeria's Revenue

The result of Nestle Nigeria shows the COVID-19 pandemic had little or no impact on the earnings of the company. This could be attributed to the company's ability to source its inputs for production locally. The latest result released by Nestle Nigeria shows a quarter-on-quarter (Q-o-Q) growth in revenue. Its revenue grew by +1.43% to N71.72bn in Q3 2020 while on a year-on-year (Y-o-Y) basis revenue grew by +3.27% (*see Chart 25*).

Note: Q4 figures show full year (FY) 2019

Chart 25: Nestle Nigeria's Revenue Q1 2019 – Q3 2020 (N'bn)

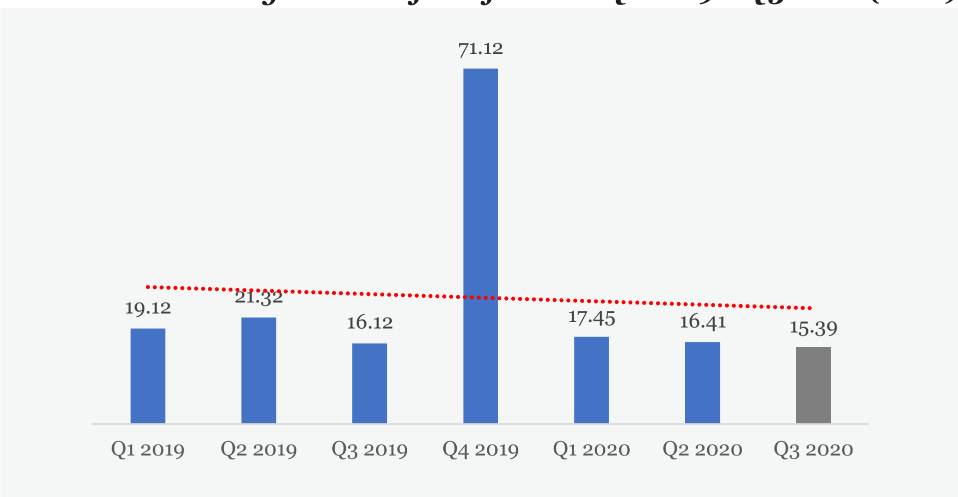


Source: Nestle Nigeria Financial Statement, Proshare Research

Profit Before Tax

Profit before tax (PBT) declined by -6.14% Q-o-Q from N16.42bn in Q2 2020 to N15.39bn in Q3 2020. While on Y-o-Y, PBT also declined by -4.45%, this was majorly driven by a -34.83% Y-o-Y decline in finance income while finance cost increased Y-o-Y by +3.35%. PBT is projected to decline marginally for FY 2020 due to the recession caused by the coronavirus (*see Chart 26*)

Chart 26: Nestle Nigeria's Profit Before Tax Q1 2019 – Q3 2020 (N'bn)

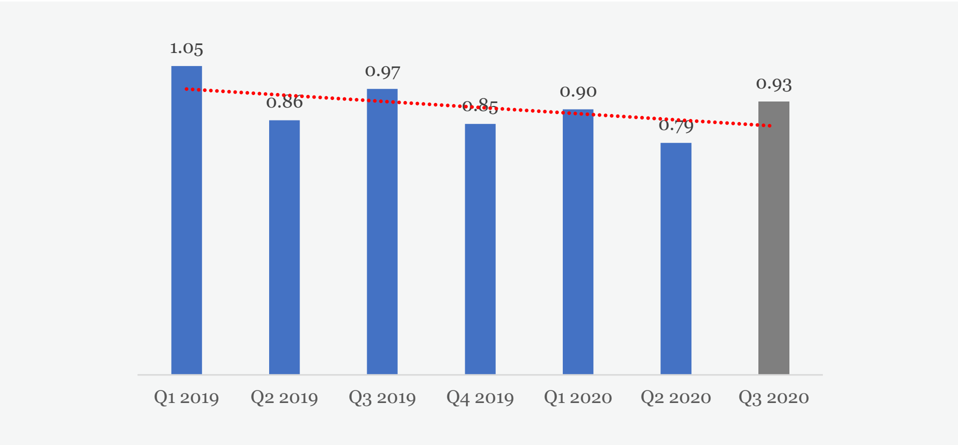


Source: Nestle Nigeria Financial Statement, Proshare Research

Current Ratio

Nestle Nigeria's current ratio recorded an improvement in Q3 2020 to 0.93 from 0.79 in Q2 2020. In Q1 2020, the current ratio recorded a decline to 0.79 which shows the company had tight liquidity challenges during that period. However, as economic activities began to pick up, there was an increase in the current ratio indicating ease from the liquidity tightness it recorded in the previous quarter. Although a current ratio of 2 is preferred for companies to show the company will be able to meet its short-term obligations (*see Chart 27*).

***Chart 27:* Nestle Nigeria's Current Ratio Q1 2019 – Q3 2020**

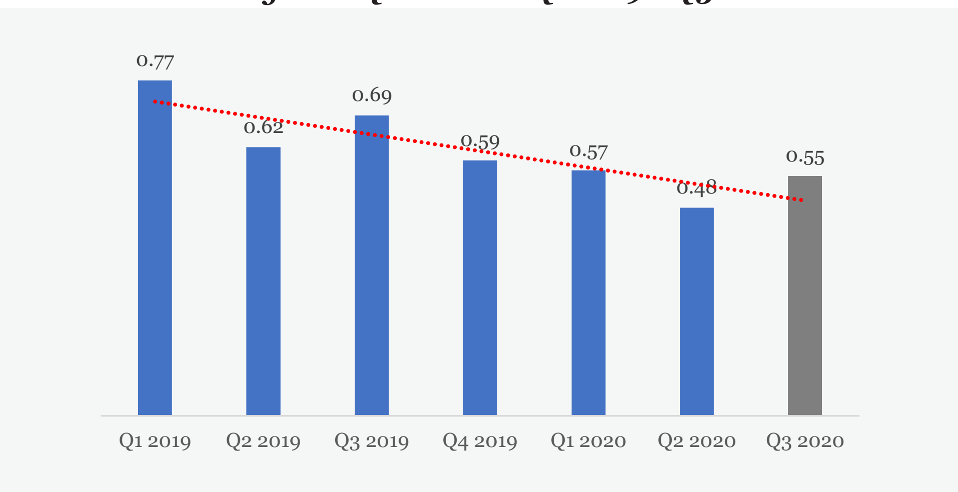


Source: Nestle Nigeria Financial Statement, Proshare Research

Quick Ratio

There was also an increase in Nestle Nigeria Plc quick ratio (known also as acid-test ratio) in Q3 2020 to 0.55 from 0.48 in Q2 2020, which is lower than 0.69 recorded in Q3 2019. The lowest quick ratio between 2019 and 2020 was recorded in Q2 2020. The restrictions and lockdown had a severe impact on the liquidity position of the company. In Q3 2020, the FMCG business recorded an improvement in its acid test ratio (*see Chart 28*).

***Chart 28:* Nestle Nigeria's Quick Ratio Q1 2019 – Q3 2020**

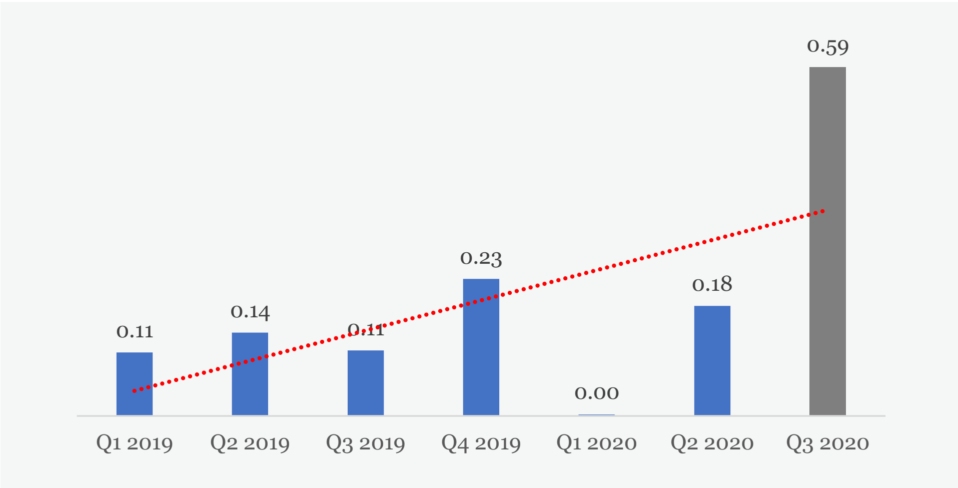


Source: Nestle Nigeria Financial Statement, Proshare Research

Leverage Ratio

The confectioners' leverage ratio grew significantly in Q3 2020 to 0.59 from 0.18 in the previous quarter, the highest the company has recorded between 2019 to 2020. The increase could be attributed to a Q-o-Q +318.07% increase in debt although total equity grew Q-o-Q by +32.02%. The high leverage ratio implies that Nestle Nigeria's operations and sales were not enough to generate revenue to grow its assets through profits (*see Chart 29*).

Chart 29: Nestle Nigeria's Leverage Ratio Q1 2019 – Q3 2020



Source: Nestle Nigeria Financial Statement, Proshare Research

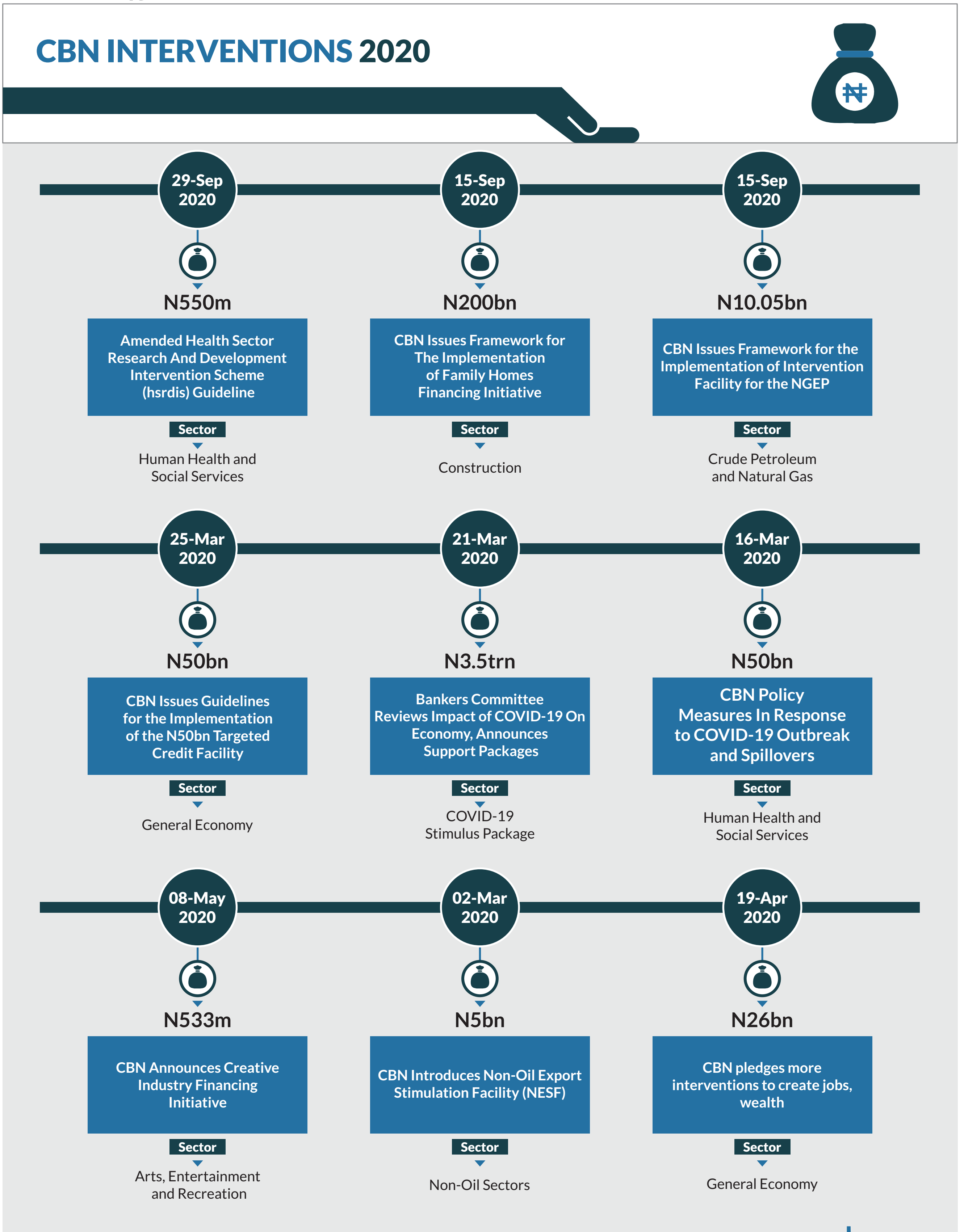
Agriculture

The COVID-19 pandemic transformed almost every aspect of life into a mixture of confusion, chaos, uncertainty. The pandemic had a quantum effect on the agricultural sector because of supply chain shortfalls which created major problems for farm holders - both small and large farm holders across the country. Lockdowns, travel restrictions, border closure etc., all led to a hike in commodity prices which threatened and still threatens food security in fragile regions of the nation.

The Federal Government of Nigeria in collaboration with the CBN had to roll out various intervention funds in a bid to curb the impact of the pandemic on various sectors including the agricultural sector. Also, the intervention funds were rolled out to encourage diversification of the oil-based economy (*see Illustration 43*).

Illustration 43: CBN Interventions in 2020

Illustration 43: **CBN Interventions in 2020**



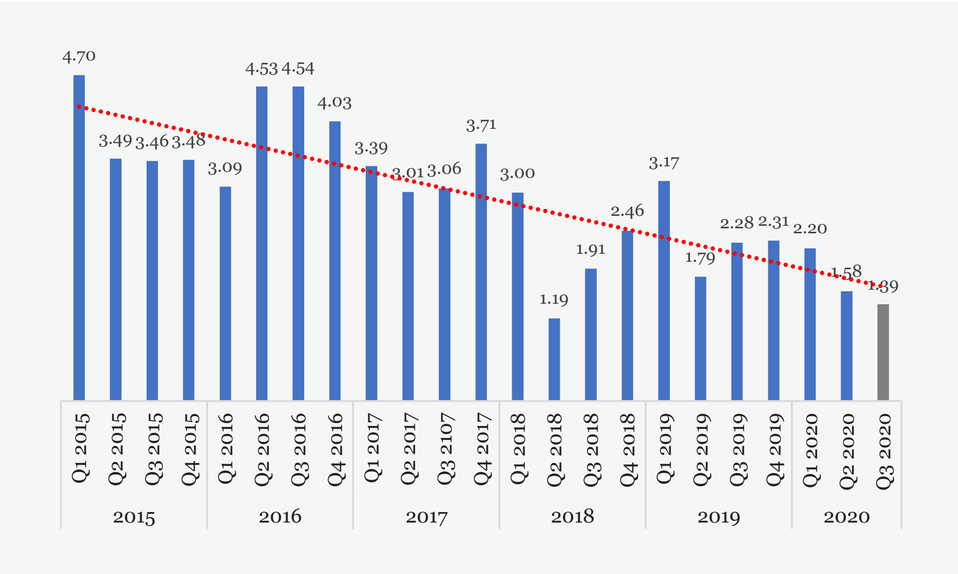
Source: Proshare Research, Ecographics

proshare ECONOMY

The temporary lockdown in some states in Nigeria also harmed farming and agriculture generally. The restrictions in the movement of goods and people affected farmer's productivity as labor shortage was a major issue in limited productive capacity and sales. Transport restrictions, quarantine measures, and insecurity issues also impeded farmers' access to markets.

The growth rate of the agricultural sector released by NBS shows a steady decline in growth of the sector. The latest statistics released reveals that the agricultural sector growth rate declined marginally by +1.39% in Q3 2020 from +1.58% in Q2 2020 and +2.20% in Q1 2020. The major driver of the sector was forestry which grew by +2.55% in Q3 2020. Other sub-sector activities in the agricultural sector are crop production, livestock, and fishing grew by +1.38%, +2.29%, and -2.07% respectively (*see Chart 30*).

Chart 30: Nigeria's Agricultural Sector Growth Rate 2015 – 2020 (%)

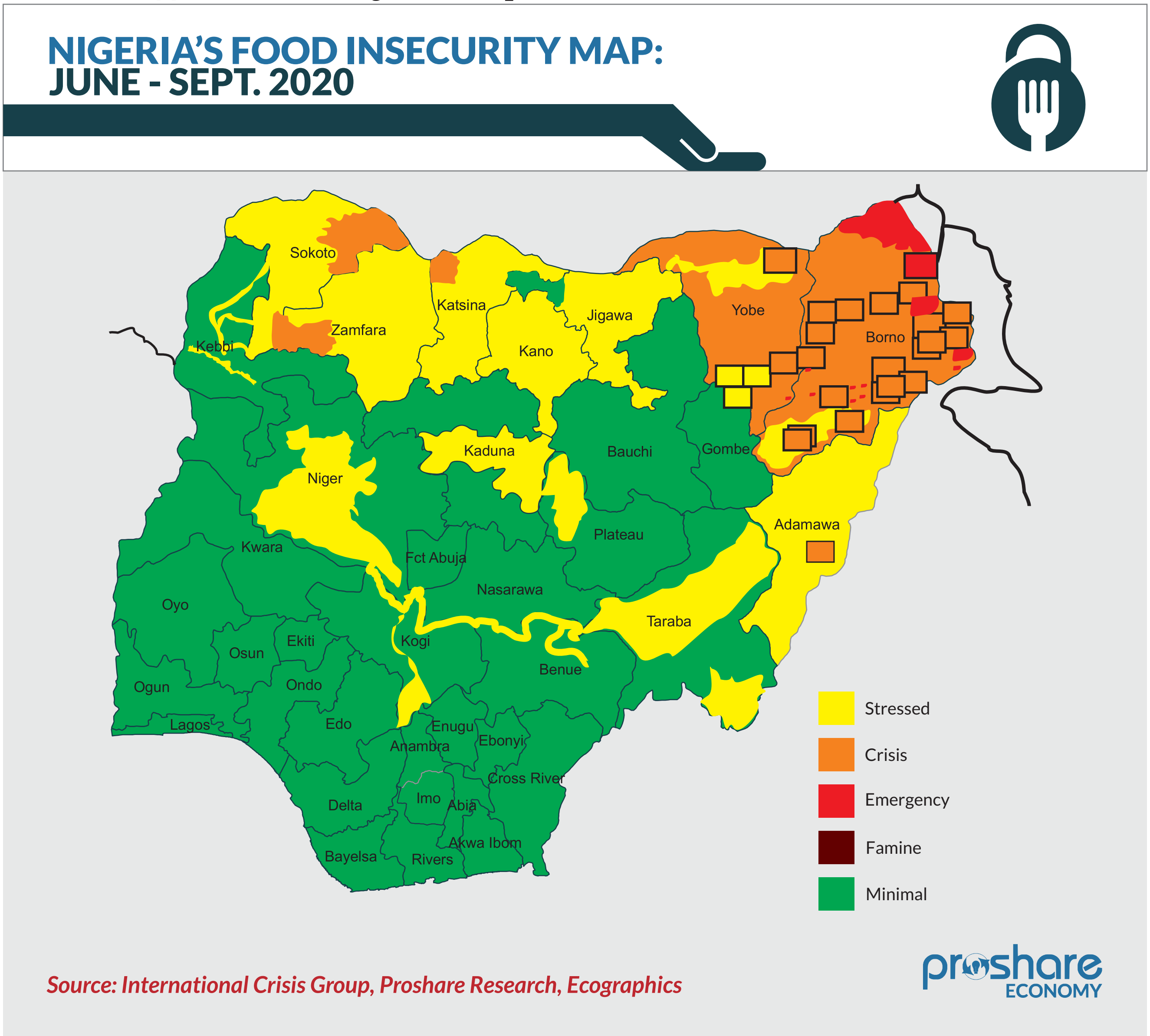


Source: NBS, Proshare Research

With over 4 million people facing hunger and one million children malnourished according to Nigeria Security Tracker, the pandemic worsened the attainment of food security in Nigeria. The impact is already felt as food prices increased steadily throughout the year. Flooding, herdsmen attacks, border closure, and poor storage facilities were all factors that attributed to the rise in food inflation according to the latest data (October 2020) from NBS.

The food insecurity has worsened over the past few years, the impact of the COVID-19 pandemic disrupted food distributions to regions where populations are already in the emergency phase and one step away from famine, increased food insecurity will lead to higher levels of malnutrition and hunger (*see Illustration 44*).

Illustration 44: ***Food Insecurity June – September 2020***



Case Study

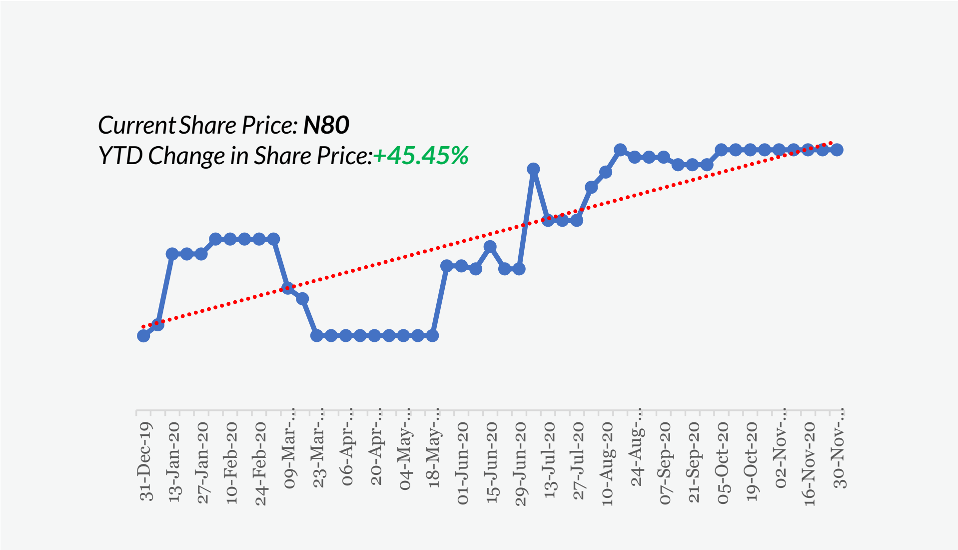
Okomu Oil Palm Company

Officials from the Federal Ministry of Agriculture and Rural Development stated recently that the local requirement of oil in Nigeria is about three million metric tonnes, however, we produce about 1.02 million metric tonnes, which means the economy imports to make up the gap and spends about $500m annually importing oil palm.

The technical analysis of the performance of Okomu Oil Palm Company indicates the company is one of the gainers of the COVID-19 pandemic. However, fundamental analysis of the financial position of the company especially Q3 results tells a different story. The company is involved in the cultivation of oil palm, processing of fresh fruit bunches into crude palm oil for resales, rubber plantation, and processing of rubber lumps to rubber cake for export. It operates through two segments: palm oil products and rubber products.

The company recorded a YTD improvement in its share price movement which grew by +45.45%. Between March and May 2020, the share price recorded a neutral channel during the peak of the COVID-19 lockdowns and restrictions. However, between July and November 2020, the share price movement had a bullish flag showing a continuous rise in its share price as economic activities began to pick up gradually (*see Chart 31*).

Chart 31: Okomu Oil Palm's YTD Share Price Movement as of 30 Nov. 2020

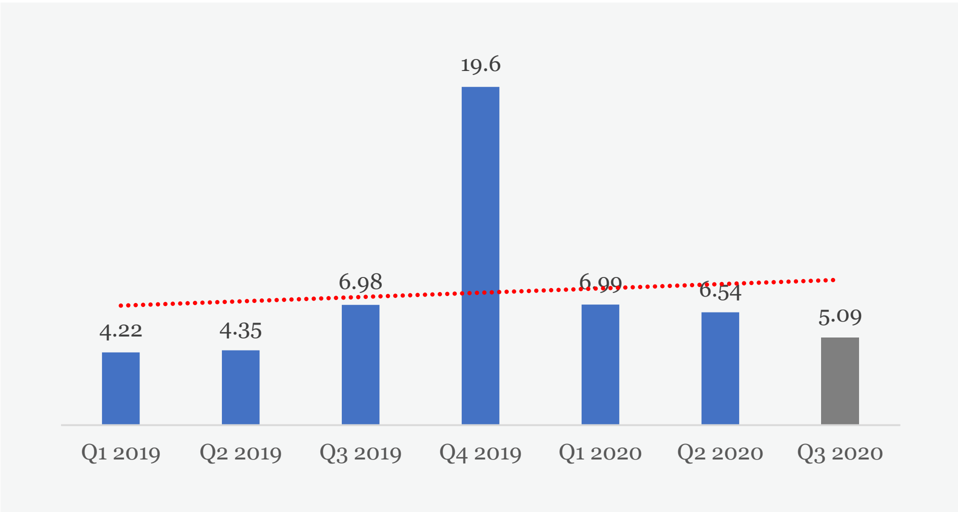


Source: NSE, Proshare Research

Okomu Oil Palm Revenue

The revenue for the company saw a steady quarterly rise both before the pandemic and during the pandemic. However, in Q3 2020 its revenue declined by -22.14% from N6.54bn in Q2 2020 to N5.09bn, this was majorly driven by a -30.35% Q-o-Q decline in local sales of the product and services rendered to third parties. This was despite the +83.16% Q-o-Q increase in export sales (*see Chart 32*).

Chart 32: Okomu Oil Palm Revenue 2019 – 2020 (N'bn)



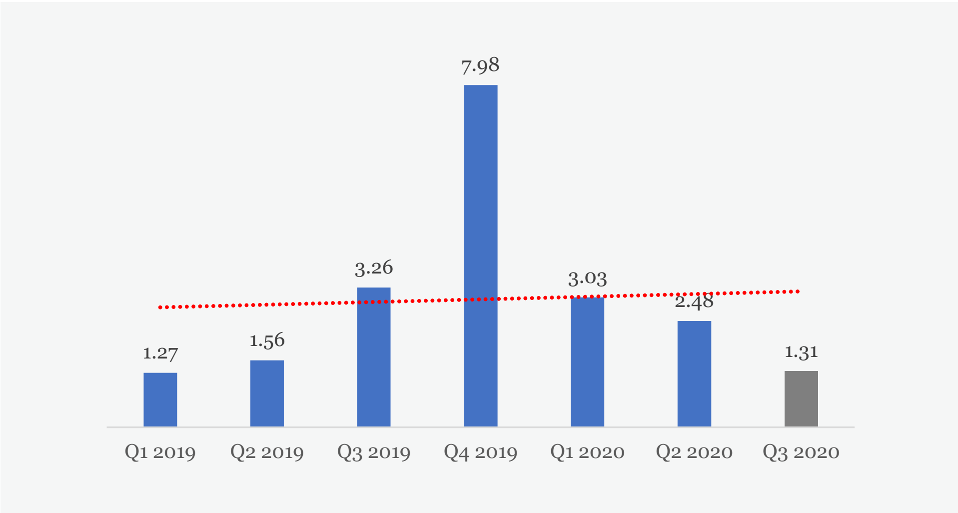
Source: Okomu Oil Palm Financial Statement, Proshare Research

Profit Before Tax

The latest results released by the company reveals that its PBT declined significantly by -46.91% Q-o-Q and -59.75% Y-o-Y. This was majorly driven by a +18.46% Q-o-Q increase in finance cost this was despite a +80.98% increase in finance income.

The results released by the company shows that the impact of the pandemic was felt in Q2 and Q3 2020 (*see Chart 33*).

Chart 33: Okomu Oil Palm Profit Before Tax 2019 – 2020 (N'bn)

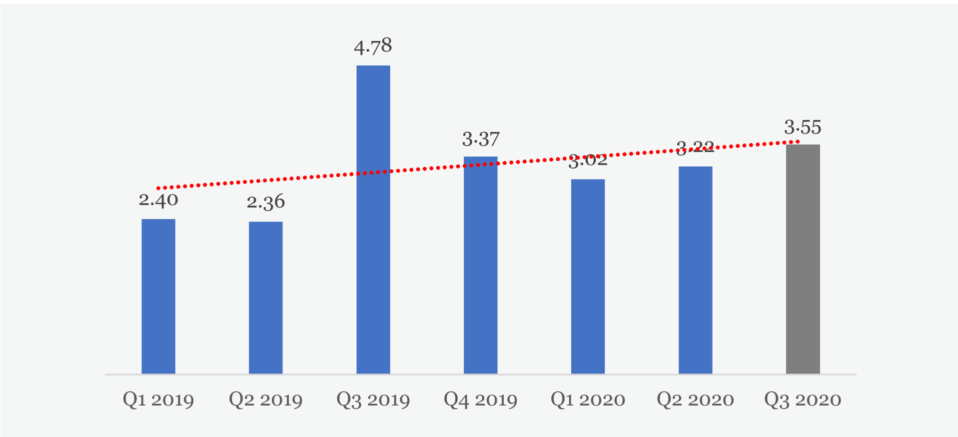


Source: Okomu Oil Palm Financial Statement, Proshare Research

Current Ratio

A current ratio between 1.5 and 3.0 for a company in agriculture shows a strong liquidity position of a company. However, when the current ratio exceeds 3.0 it can indicate the company has too much of its assets in liquid or non-earning assets which may hurt the profitability of the business. Okomu Oil Palm in the last few quarters has recorded a current ratio above two (2). Despite the macroeconomic challenges caused by the health pandemic, Okomu Oil Palm recorded an increase in its current ratio from 3.22 in Q2 to 3.55 in Q3 2020, showing a consistent three-quarter rise in the current ratio (*see Chart 34*).

Chart 34: Okomu Oil Palm Current Ratio 2019 – 2020

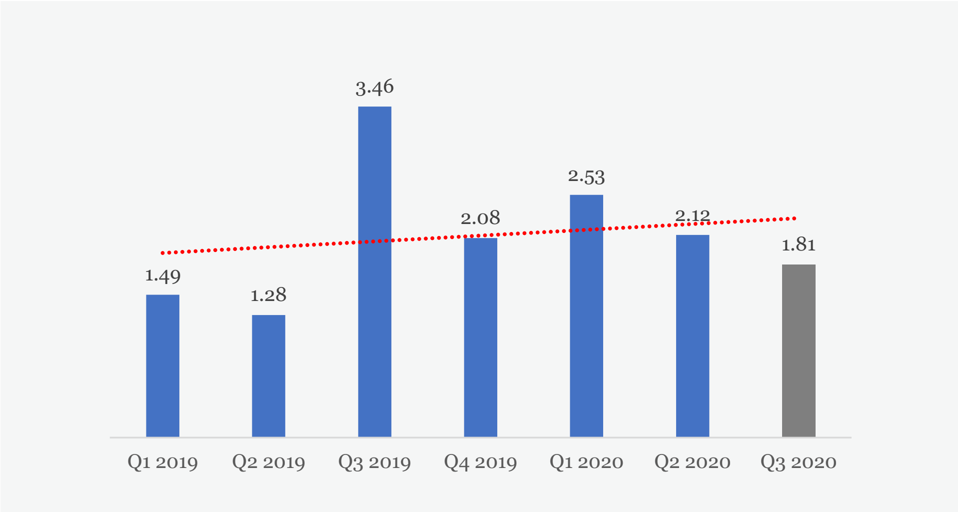


Source: Okomu Oil Palm Financial Statement, Proshare Research

Quick Ratio

The quick ratio of the company for the year 2020 (three quarters) has seen a steady decline from what was recorded in Q1 2020. The latest result of the company reveals that the quick ratio was 1.81 which shows the company can meet its short-term obligations using its most liquid assets excluding inventory. On a Y-o-Y basis, the quick ratio declined significantly from 3.46 in Q3 2019 to 1.81 in Q3 2020 (*see Chart 35*).

Chart 35: ***Okomu Oil Palm Quick Ratio 2019 – 2020***

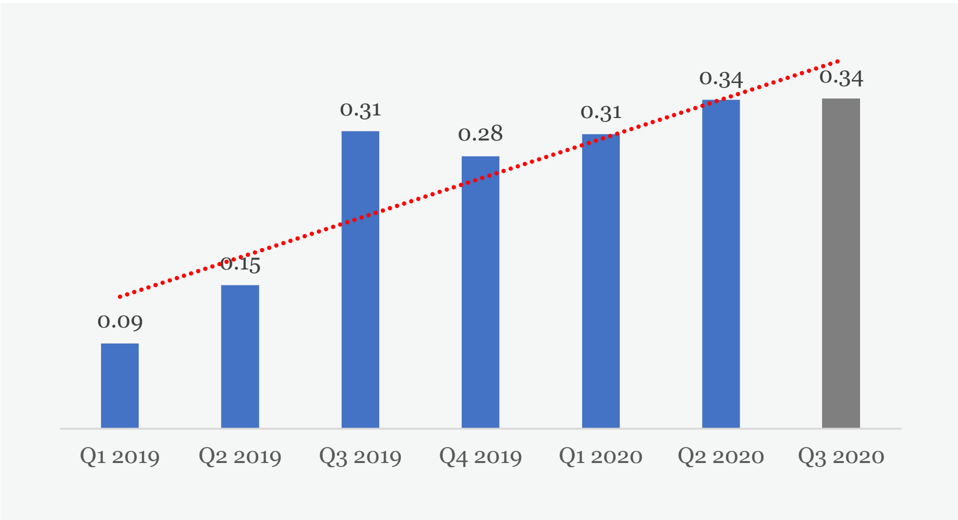


Source: Okomu Oil Palm Financial Statement, Proshare Research

Leverage Ratio

A higher leverage ratio indicates that a company is using debt to finance its assets and operations. Quarterly result released by Okomu Oil Palm for three quarters in 2020 shows that its highest leverage ratio between 2019 and 2020 was recorded in Q2 and Q3 2020. In Q3 2020, the leverage ratio was 0.34 which was unchanged from Q2 2020. Y-o-Y, its leverage ratio increased from 0.31 in Q3 2019 to 0.34 (*see Chart 36*).

Chart 36: ***Okomu Oil Palm Leverage Ratio 2019 – 2020***



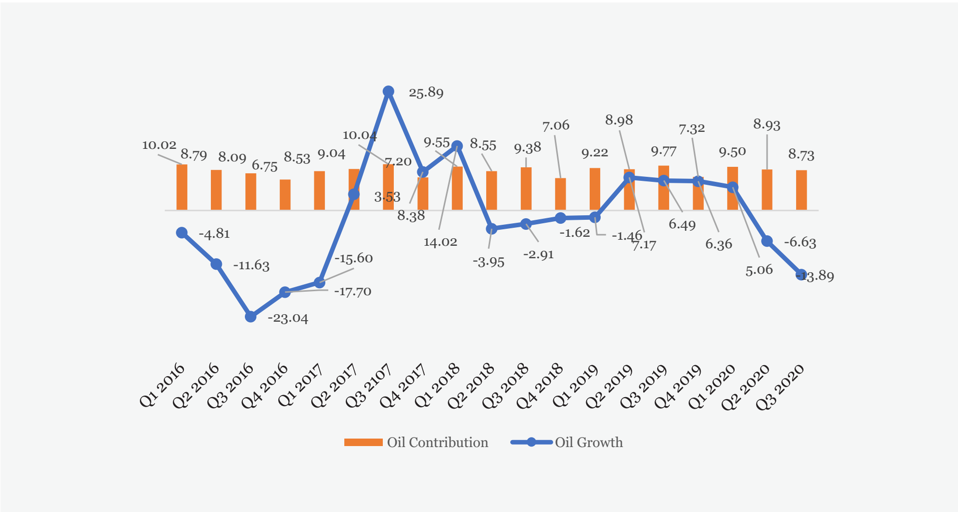
Source: Okomu Oil Palm Financial Statement, Proshare Research

Oil & Gas Sector

The Oil and Gas sector suffered a twin hit in 2020. Plunging oil demand brought about by the COVID-19 and the price war between Russia and Saudi Arabia further worsened the financial position of an already vulnerable sector. The fall in oil prices heavily impacted the Nigerian economy. The sector accounts for over half of the economy's revenue and is the highest forex earner of the country.

In Q1 the sector grew by +5.06%, at this time, the sector was yet to feel the impact of the pandemic. However, Q2 and Q3 2020 recorded a consecutive decline in growth. Its contribution to GDP has also seen a steady decline from the beginning of the year. In Q3 2020, its contribution to GDP stood at +8.73%. Comparing the latest result released by NBS to Q3 2019, growth of the sector declined Y-o-Y by -13.89% while its contribution to GDP declined by -10.64% Y-o-Y (*see Chart 37*).

***Chart 37:* Oil & Gas Sector Growth and Contribution to GDP 2014 – 2020 (%)**



Source: NBS, Proshare Research

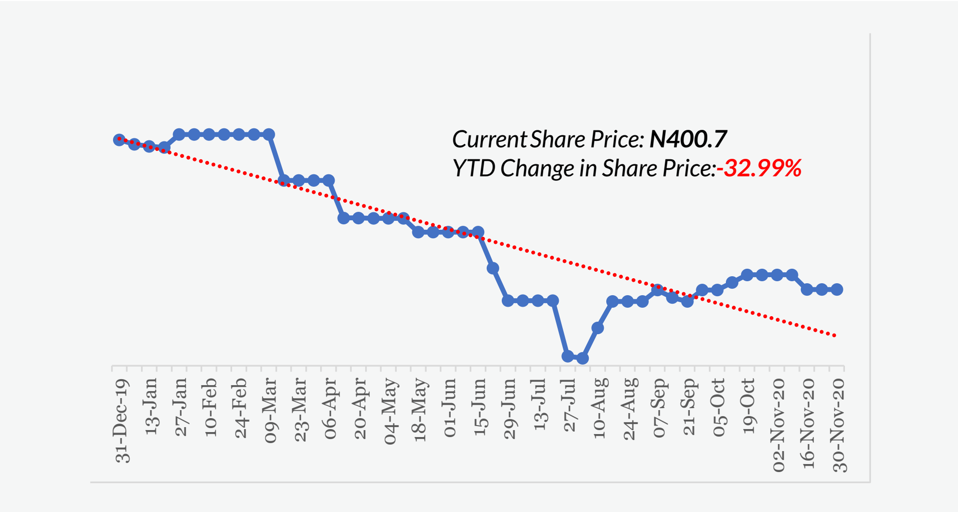
Case Study

Seplat Petroleum Development Company (SPDC)

SPDC, an upstream player in the Nigerian oil and gas sector which is listed both on the Nigerian Stock Exchange and London Stock Exchange. The latest result of the Company shows the revenue and profit of the Company are recovering from the severe impact of the COVID-19 pandemic which it recorded in Q2 2020. Also, technical analysis of the Company, i.e., its share price movement was heavily impacted as year-to-date (YTD) performance of the share price recorded a -32.99% decline.

At the beginning of the year, the share price of the company was well above N500, in July 2020 prices went as low as N312. With the gradual reopening of both the global and domestic economy, the share price of SPDC has also picked up although still below the pre-COVID-19 era (*see Chart 38*).

Chart 38: ***SPDC's YTD Share Price Movement as of 30 Nov. 2020***



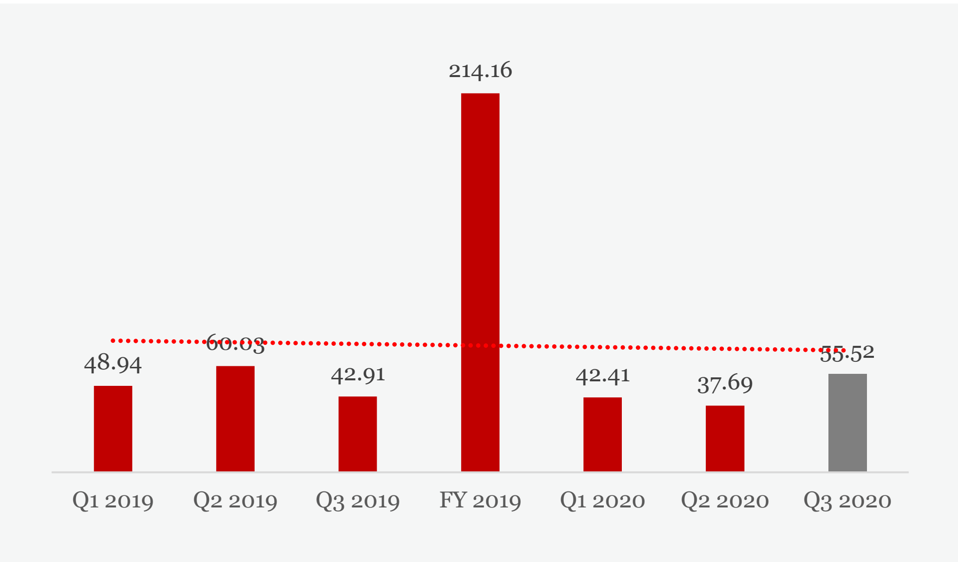
Source: NSE, Proshare Research

SPDC' Revenue

In Q1 and Q2 2020, the revenue of the company declined when compared to Q1 and Q2 2019. However, Q3 2020 results show growth even higher than what was recorded in Q3 2019.

Its revenue grew by +47.27% Q-o-Q to N55.52bn for Q3 2020, this was against N37.69bn recorded in the preceding quarter. On a Y-o-Y basis, revenue increased by +29.39%, from N42.91bn in Q3 2019. This was majorly driven by a +37.61% Y-o-Y increase in crude oil sales, while gas sales grew marginally by +2.84% (*see Chart 39*). The company did not record revenue from gas processing as it has ceased to process gas for Nigerian Petroleum Development Company (NPDC)

Chart 39: ***SPDC's Revenue 2019 - 2020 (N'bn)***

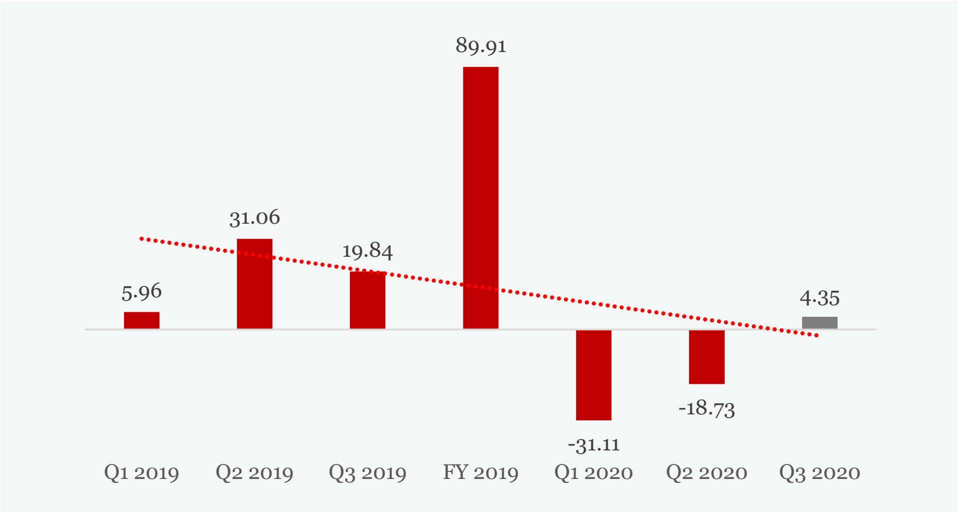


Source: SPDC's Financial Statement, Proshare Research

SPDC' Profit Before Tax

The latest result released by the company shows profit before was below pre-pandemic levels. On a Q-o-Q basis, PBT significantly improved in Q3 2020, PBT grew by +76.77% Quarter-on-Quarter (Q-o-Q), from a loss of N18.73bn recorded in Q2 2020 to a gain of N4.35bn. This was majorly driven by a +180.20% growth in operating income (*see Chart 40*).

***Chart 40:* SPDC's Profit/Loss Before Tax 2019 – 2020 (N'bn)**

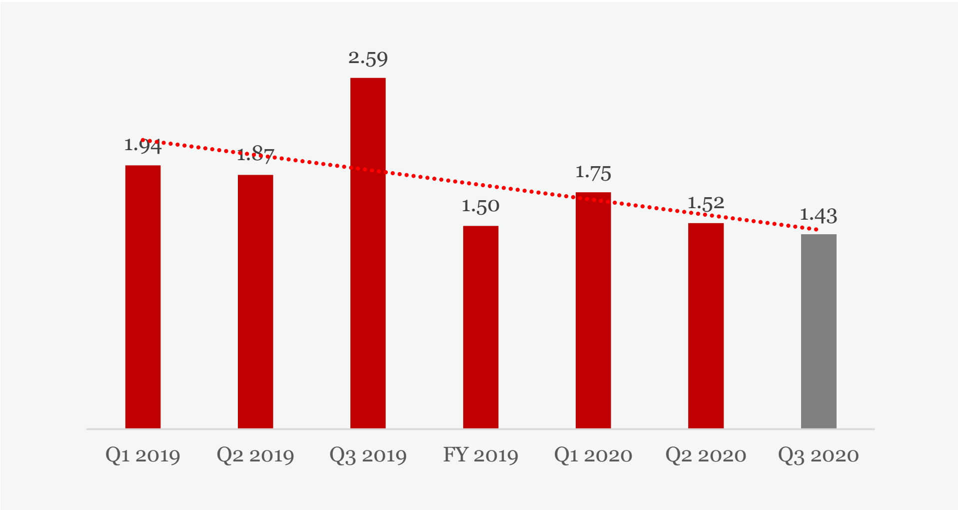


Source: SPDC's Financial Statement, Proshare Research

SPDC Current Ratio

Its current ratio for 2020 recorded a decline in the three quarters consecutively. In Q3 2020, the current ratio declined to 1.43 from 1.52 in Q2 2020. On Y-o-Y, the current ratio also declined from 2.59 in Q3 2019 to 1.43 in Q3 2020. Although the results released by the company show a decline in its current ratio, the current ratio is still above 1.5 which is the preferred current ratio for an oil & gas company. This shows indicated that the company can still meet up with its short-term obligations (*see Chart 41*).

***Chart 41:* SPDC's Current Ratio 2019 – 2020**

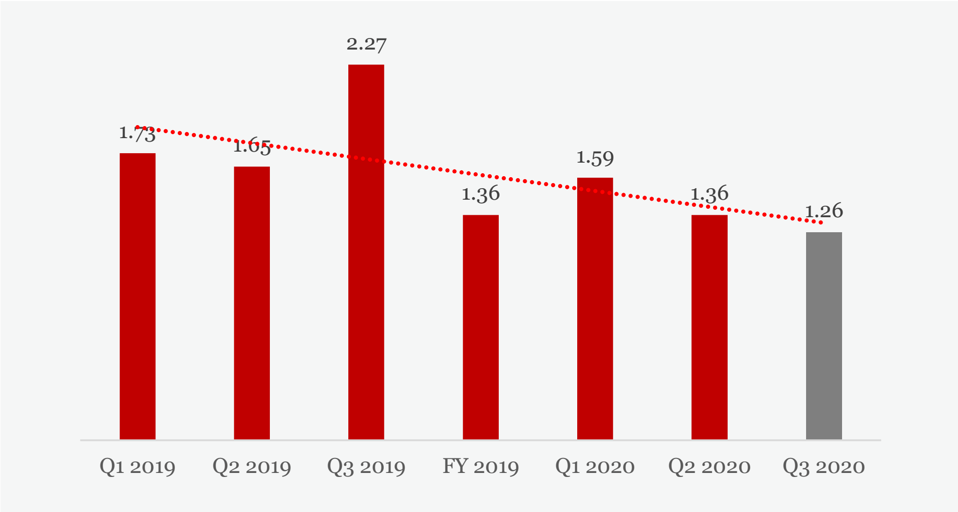


Source: SPDC's Financial Statement, Proshare Research

SPDC Quick Ratio

The quick ratio for Q3 2020 declined to 1.26 from 1.36 Q2 2020. Y-o-Y, its quick ratio also recorded a decline from 2.27 in Q3 2019. For a player in the upstream segment of the oil and gas sector, which is heavily invested in fixed assets, a quick ratio of 1.26 shows the company has a well-managed liquidity position (*see Chart 42*).

Chart 42: SPDC's Quick Ratio 2019 – 2020

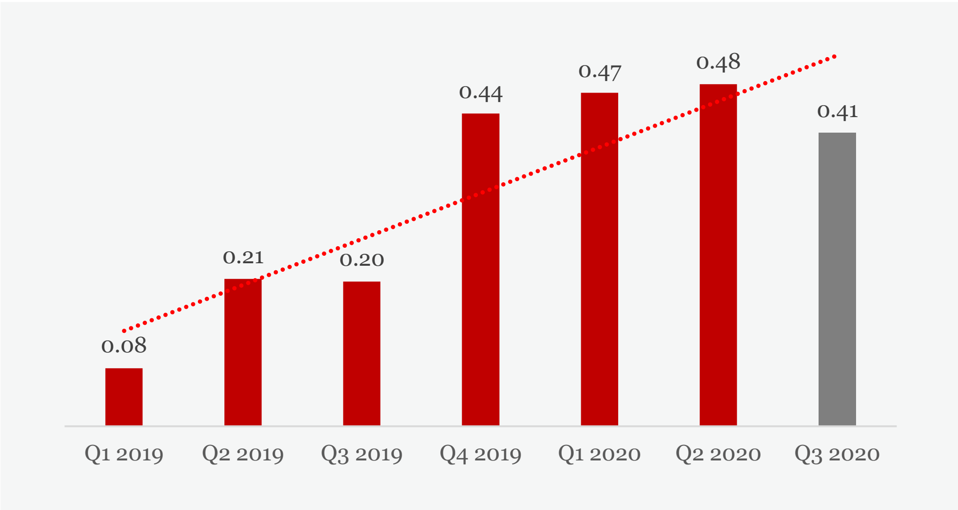


Source: SPDC's Financial Statement, Proshare Research

SPDC Leverage Ratio

The leverage ratio of the company has been on a steady path of growth since 2019. This is because of the steady increase in total debt of the company. The leverage ratio for Q3 2020 declined to 0.41 from 0.48 in Q2 2020. This was driven by a -8.90% Q-o-Q decline in total debt. On Y-o-Y comparison, the debt-to-equity ratio (leverage ratio) increased from 0.20 in Q3 2019 to 0.41 in Q3 2020, this was also driven by a +139.60% Y-o-Y significant increase in total debt of SPDC (*see Chart 43*).

Chart 43: SPDC's Leverage Ratio 2019 – 2020



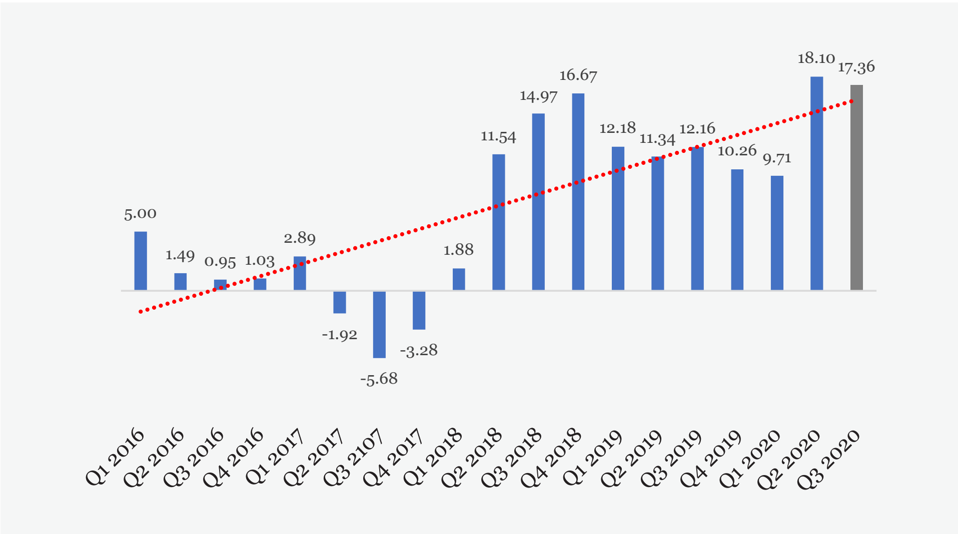
Source: SPDC's Financial Statement, Proshare Research

Telecommunication

The advent of the coronavirus pandemic helped bolster the role telecommunication infrastructure plays in keeping the smooth running of businesses, government, and societies. The lockdown and restrictions led to higher dependence on digital tools which increased the demand for telecommunication services. To ensure business continuity, businesses have had to solely rely on technology and digital services i.e., video conferencing and webinars.

Furthermore, education and religious activities were also moved to online platforms, all of these led to increased demand for voice and data services, and digital hardware. Also, the telecommunication sector has proved to be countercyclical, as the sector seems to be performing better compared to other infrastructure sub-sectors amidst the pandemic. In Q2 2020, the telecommunication growth rate was 18.10% which was the highest the subsector has recorded in over 18 months. Although in Q3 2020, the growth rate of the subsector declined marginally by -4.08% (*see Chart 44*).

Chart 44: Nigeria's Telecommunication and Information Services Sub-Sector Growth Rate 2016 – 2020 (%)



Source: NBS, Proshare Research

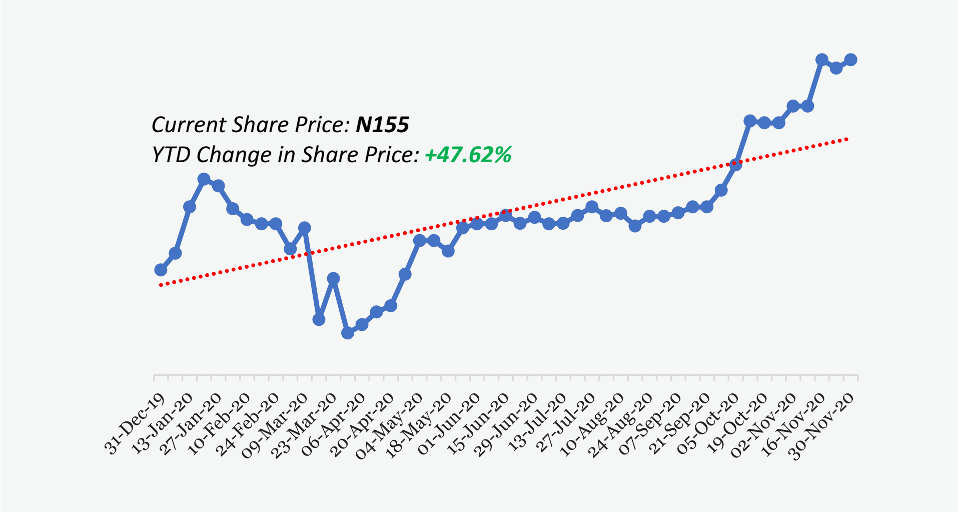
Case Study

MTN Nigeria Communications Plc

MTN Nigeria is the leading mobile operator in Nigeria listed on the Nigerian Stock Exchange (NSE) with a market capitalization of N3.18trn as of December 09, 2020.

The share price movement of the company has a bullish flag pattern. It increased YTD by +47.62%, seeing the sector in which the company operates is one of the gainers of the pandemic. Although the price of the stock went lower than how it started the year in April during the lockdown, we saw an almost reversal in the same month, and the price has had a bullish trend since then (*see Chart 45*).

Chart 45: ***MTN Nigeria's YTD Share Price Movement as of 30 Nov. 2020***

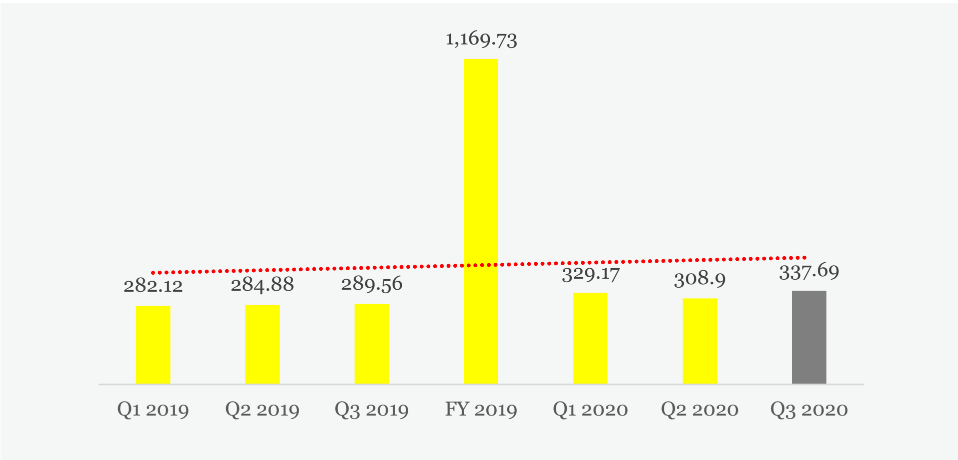


Source: NSE, Proshare Research

MTN Nigeria – Revenue

Revenue lines of MTN Nigeria all recorded growth. Furthermore, revenue growth was recorded in both Y-o-Y and Q-o-Q. For Y-o-Y, its revenue grew by +16.62% from N289.56bn in Q3 2019 to N337.69bn in Q3 2020. Also, its revenue grew by +9.32% Q-o-Q, as this was majorly driven by a +92.02% Q-o-Q increase in handsets and accessories, +8.85% growth in voice revenue, and +9.55% increase in data revenue (*see Chart 46*).

Chart 46: ***MTN Nigeria Revenue 2019 – 2020 (N'bn)***

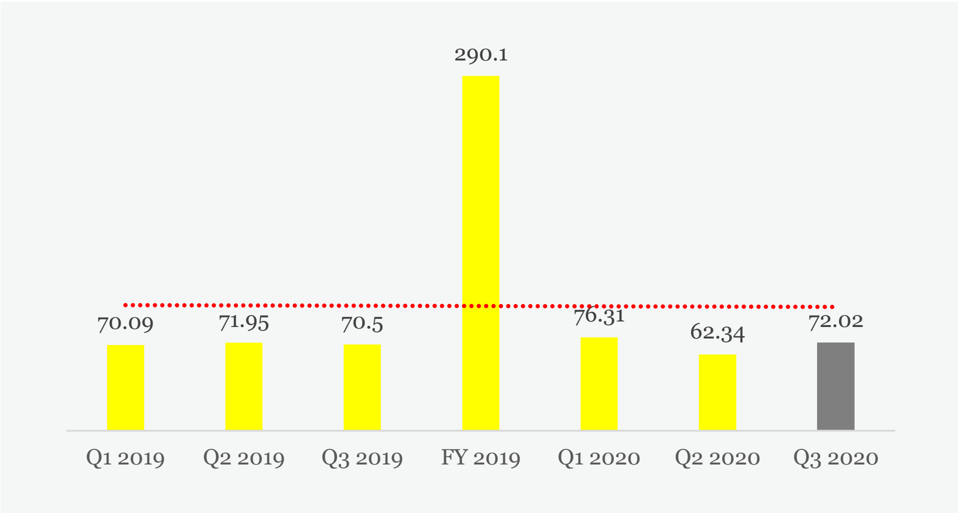


Source: MTN Nigeria's Financial Statement, Proshare Research

MTN Nigeria – Profit Before Tax

MTN Nigeria's profit before tax started the year on a growth path as Q1 2020 results showed +8.86% growth when compared to Q1 2019. In Q2 2020, PBT declined by -18.31% Q-o-Q. While in Q3 2020, there was a rebound in profit before tax, it grew by +15.54% Q-o-Q and +2.16% Y-o-Y growth. The quarterly growth in PBT for Q3 2020 was driven by a +46.65% increase in finance income despite a +10.24% increase in finance costs (*see Chart 47*).

Chart 47: ***MTN Nigeria Profit Before Tax 2019 – 2020 (N'bn)***

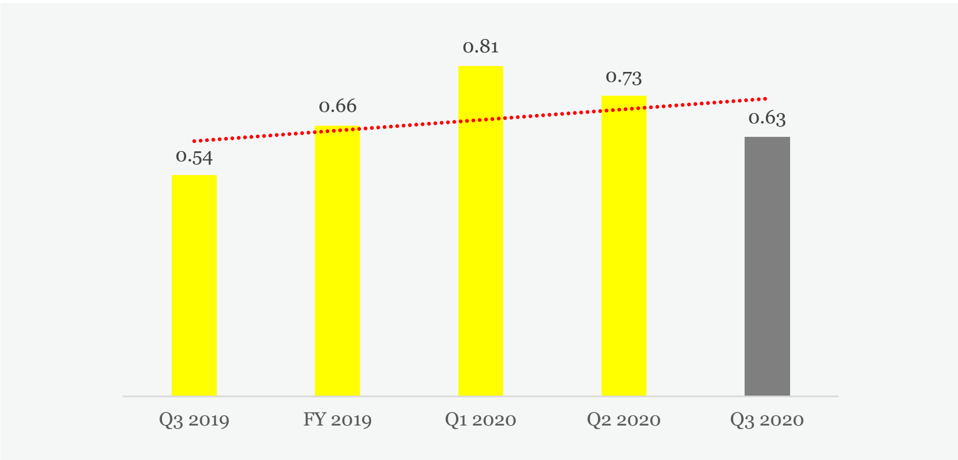


Source: MTN Nigeria's Financial Statement, Proshare Research

MTN Nigeria – Current Ratio

The preferred current ratio for a telecom company is 0.90 indicating a good liquidity position of the Company. MTN Nigeria was listed in 2019, results posted since its listing on the NSE shows the company has not recorded a current ratio above 0.81. Between Q1 to Q3 2020, it recorded a consistent decline in the current ratio indicating the company has liquidity issues. In Q3 2020 current ratio was 0.63, a decline from 0.73 in Q2 2020 (*see Chart 48*).

Chart 48: ***MTN Nigeria Current Ratio 2019 – 2020***

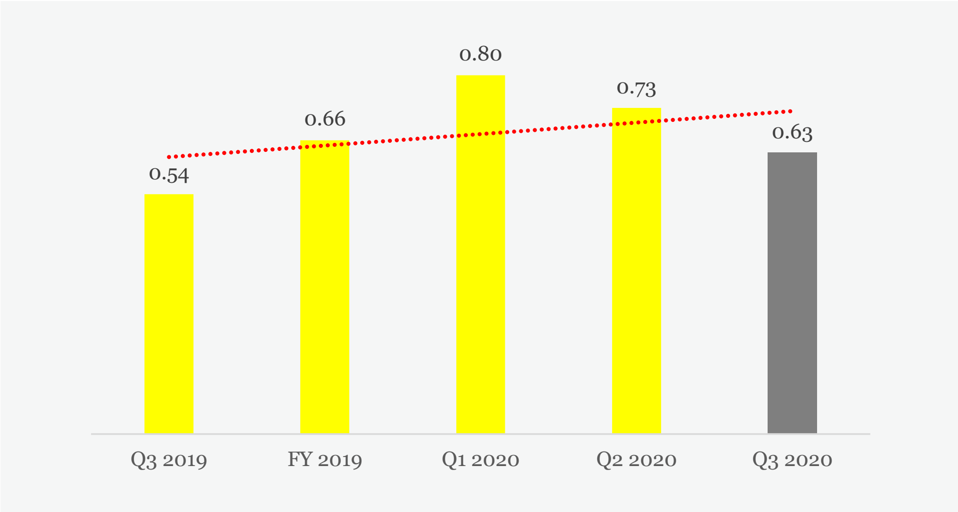


Source: MTN Nigeria's Financial Statement, Proshare Research

MTN Nigeria – Quick Ratio

In Q3 2020, the quick ratio of the Company was 0.63. The same ratio was recorded for the current ratio in the same period. This indicates the low proportion of inventories to current assets. The quick ratio of the company also declined consecutively for three quarters in 2020 (*see Chart 49*).

Chart 49: MTN Nigeria Quick Ratio 2019 – 2020

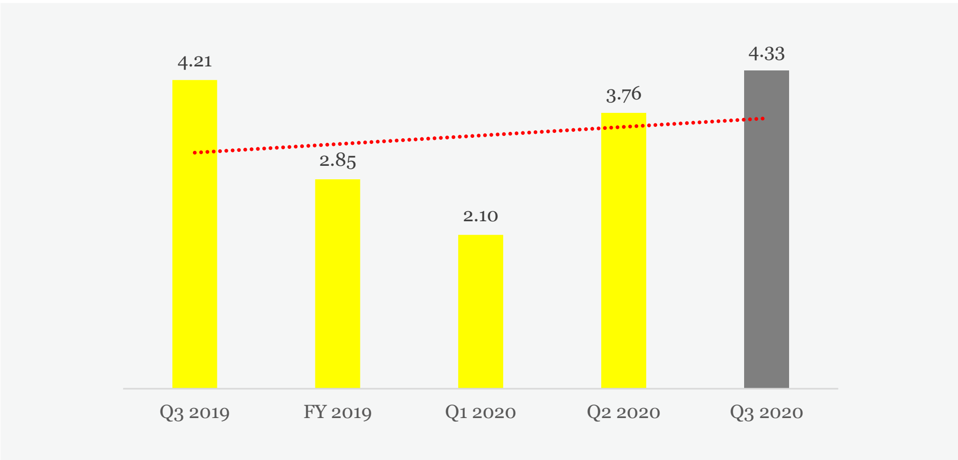


Source: MTN Nigeria's Financial Statement, Proshare Research

MTN Nigeria – Leverage Ratio

The leverage ratio of MTN Nigeria grew between Q1 – Q3 2020, because of the steady increase in the total debt of the company. In Q3 2020, the leverage ratio was 4.33 higher than the 3.76 recorded in Q2 2020. The total debt of the company grew by +27.66% between Q1 and Q2 2020. In Q3 2020, total debt declined marginally by -2.83%, although for Y-o-Y debt grew significantly by +33.49% against Q3 2019 (*see chart 50 below*).

Chart 50: MTN Nigeria Leverage Ratio 2019 – 2020



Source: MTN Nigeria's Financial Statement, Proshare Research

Finance and Insurance Sector

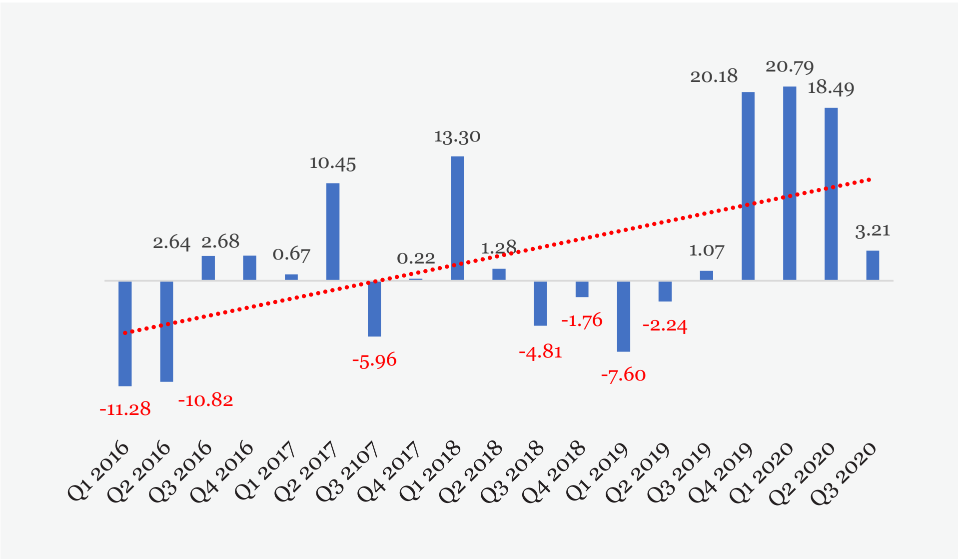
The financial services sector recorded an improvement in its quarterly growth rate, despite the challenging macroeconomic environment caused by the COVID-19 pandemic and ENDSARS protest which caused lockdowns and restrictions in major cities of the nation. Most financial institutions had before these crises set-up digital platforms and FinTech platforms which aided in business continuity, although operational cost increased as stated in their results.

A downside of the impact of the COVID-19 pandemic is the increase in non-performing loans, especially for banks that are largely exposed to the oil and gas sector. The fall in oil prices and the volatility in the oil and gas sector hurt the financial position of the Oil & Gas companies which will lead to defaults in loans and an increase in bad loans and impairment charges of the financial institutions.

However, in the case of the insurance sub-sector, the financial position is expected to decline at the end of the year as huge claims will likely be paid for businesses that were insured and were adversely impacted by the COVID-19 pandemic and ENDSARS protest. Furthermore, gross premiums are also expected to rise as there will be a huge demand for insurance services (*see **Page 122 & 123 Coronanomics Report** by Proshare for the impact of COVID-19 on banks and insurance companies*).

The financial and insurance sector recorded a growth of +20.79% in Q1 2020, which was the highest growth rate of the financial and insurance sector in 16 quarters. In Q2 2020, the growth rate declined to +18.49% while in Q3 2020, the sector grew slightly by +3.21% (*see Chart 51*).

Chart 51: Financial and Insurance Sector Growth Rate 2016 – 2020 (%)



Source: NBS, Proshare Research

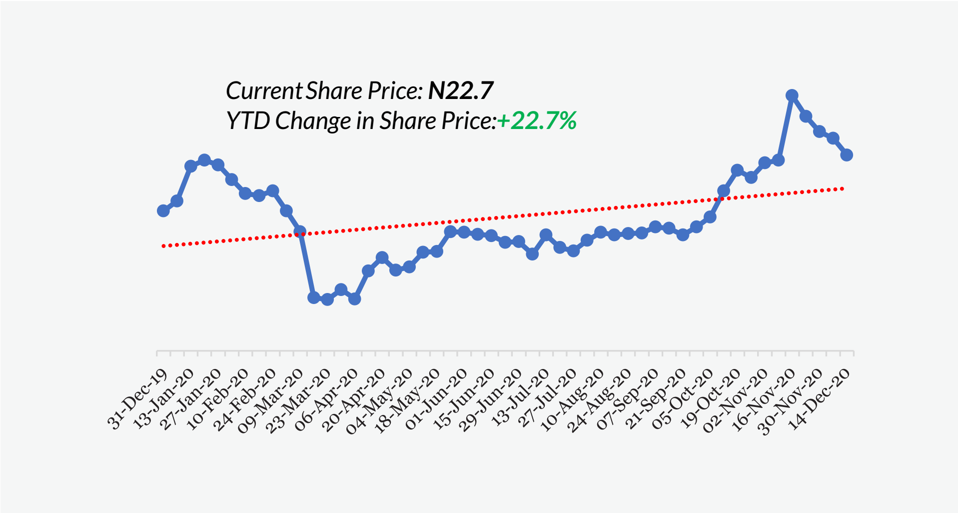
Case Study

Zenith Bank Plc

Zenith Bank is engaged in the provision of banking and other financial services to corporate and individual customers. The Bank's segments include corporate, retail banking, and pension custodial services. 2020 results (Q1 – Q3 2020) released by the Bank shows improvement in its earnings and profitability for 2020 when compared to the period in 2019. However, on quarter-on-quarter performance in 2020, the Bank recorded declines in earnings and profitability especially in Q3 2020 results which reflects the impact of the pandemic on banking operations.

The share price movement of the bank responded to investor sentiment which was greatly influenced by the COVID-19 pandemic. Investors were also skeptical as to how the operations of the financial institution will be impacted by the pandemic. The share price of the bank fell as low as N12 during the peak of the pandemic which was in March 2020. In May, there was a gradual uptick in the share price, while towards the end of the year, the share price rose above the pre-pandemic price of the stock (*see Chart 52*).

Chart 52: Zenith Bank's YTD Share Price Movement as of 14th Dec 2020



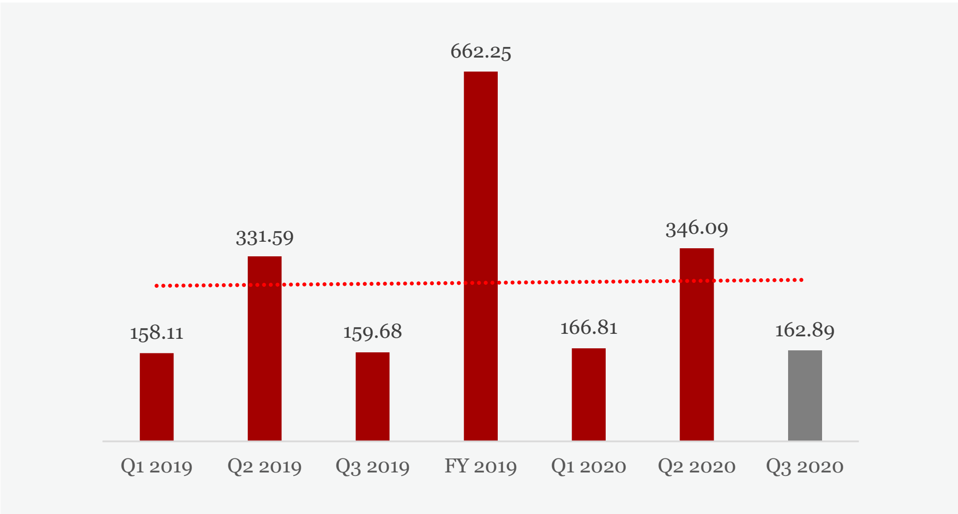
Source: NSE, Proshare Research

Zenith Bank – Gross Earnings

The tier 1 Bank's 2020 result shows improvement in its earnings when compared to the same period in 2019. Although, its Q-o-Q performance shows a decline in earnings.

In Q2 2020, gross earnings increased significantly by +107.47% on a Q-o-Q basis. Conversely, in Q3 2020, the Bank recorded a -52.93% Q-o-Q decline in gross earnings. However, in the same period, gross earnings grew marginally by +2.01% Y-o-Y (*see Chart 53*).

Chart 53: Zenith Bank's Gross Earnings 2019 – 2020 (N'bn)



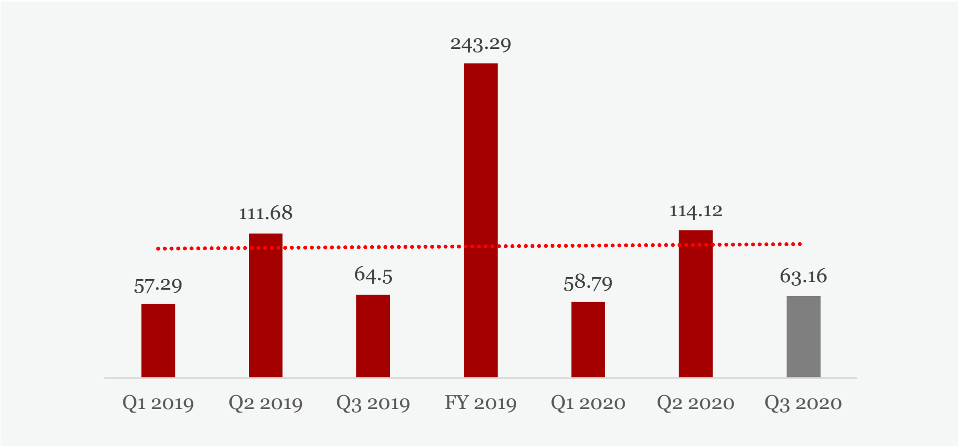
Source: Zenith Bank Financial Statement, Proshare Research

Zenith Bank – Profit Before Tax

The profit before tax of the Nigerian lender did not record significant improvement in its quarterly results released in 2020 when compared to the same periods in 2019. In Q2 2020, profit before tax grew significantly by +94.13% Q-o-Q and on a Y-o-Y basis for the same period, PBT grew marginally by +2.19%.

In Q3 2020, PBT declined significantly by -44.66% Q-o-Q while on a Y-o-Y basis, profit before tax declined marginally by -2.09% from N64.5bn in Q3 2019 to N63.16bn in Q3 2020 (*see Chart 54*).

Chart 54: Zenith Bank's Profit Before Tax 2019 – 2020 (N'bn)



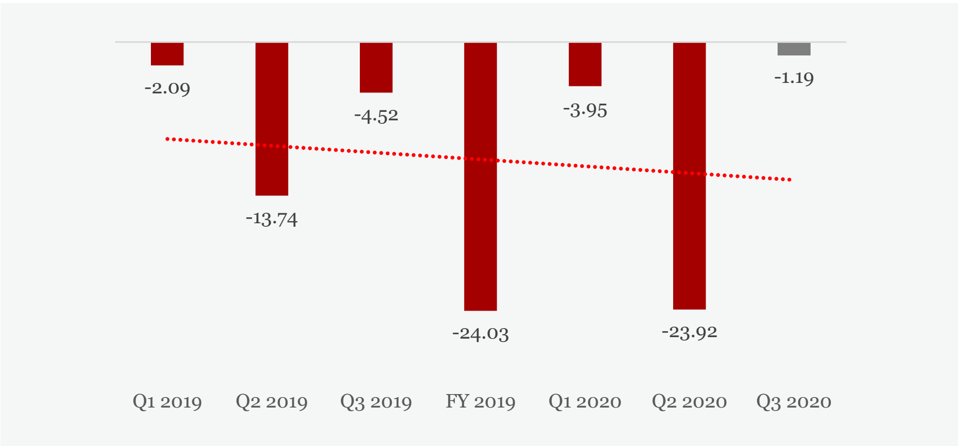
Source: Zenith Bank Financial Statement, Proshare Research

Zenith Bank – Impairment Charges

In Q2 2020, Zenith Bank recorded its highest impairment charges between Q1 – Q3 2020. The impairment charge for Q2 2020 was N23.92bn, that is, over a 500% increase from N3.95bn in Q1 2020. On a Y-o-Y basis, its Q2 2020 impairment charge was up by +74.18%.

However, in Q3 2020, impairment charges declined significantly by a -104.95% Q-o-Q, while it declined by -73.81% on a Y-o-Y basis (*see Chart 55*).

Chart 55: Zenith Bank's Impairment Charge 2019 – 2020 (N'bn)



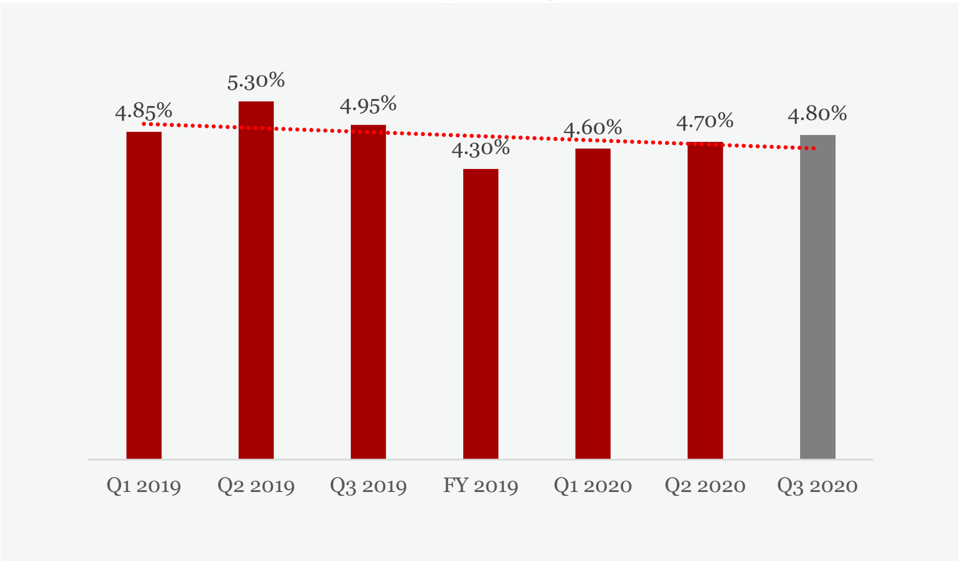
Source: Zenith Bank Financial Statement, Proshare Research

Zenith Bank – Non-Performing Loan Ratio

The non-performing loan ratio of Zenith Bank in Q3 2020 was +4.80%, the highest the bank recorded in its quarterly results released in 2020. Its NPL ratio declined in Q3 2020 when compared to Q3 2019 which was 4.95%.

Zenith Bank's FY 2019 result the oil and gas sector accounted for 30.75% of the Bank's NPL and was closely followed by the communication sector which accounted for 29.47% of NPL by sector. The latest result released by the Bank (Q3 2020) shows that the oil and gas sector accounted for 40.05% of NPL, followed by the communications sector which accounted for 22.1% of the bank's NPL ratio. This indicates that the bank is highly exposed to the oil and gas sector, therefore, its earnings and profitability will be negatively impacted by happenings in the oil and gas sector (*see Chart 56*).

Chart 56: Zenith Bank's Non-Performing Loan Ratio 2019 – 2020



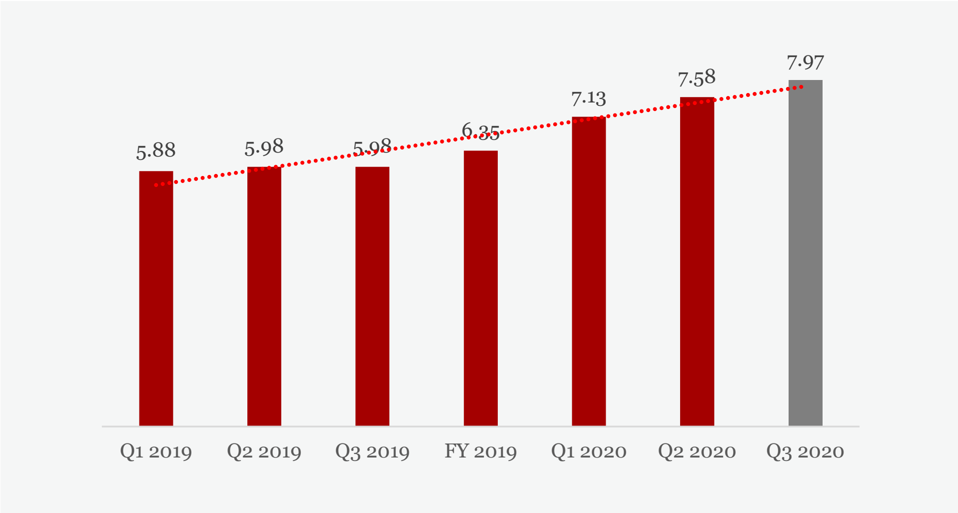
Source: Zenith Bank Financial Statement, Proshare Research

Zenith Bank – Total Assets

The growth of Zenith Bank's total assets between Q1 2019 to Q3 2020 has been steady. In Q3 2020, its total assets grew by +5.19% Q-o-Q, while on a Y-o-Y basis total asset was up significantly by +33.37% from N5.98trn in Q3 2019 to N7.97trn in Q3 2020. This was majorly driven by a +96.88% growth in cash and bank balances with central banks, a +84.95% increase in investment securities, and an increase in treasury bills and loans and advances by +23.92% and +32.69% respectively (*see Chart 57*).

Chart 57: Zenith Bank's
Total Assets 2019 – 2020 (N'trn)

Chart 57: Zenith Bank's Total Assets 2019 – 2020 (N'trn)

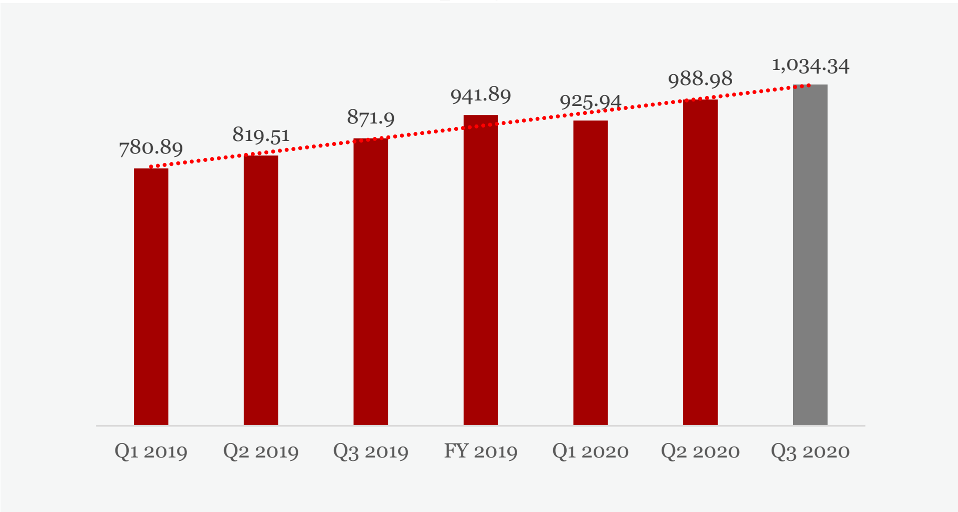


Source: Zenith Bank Financial Statement, Proshare Research

Zenith Bank – Total Equity

Zenith Bank 's total equity also grew steadily between Q1 2019 to Q3 2019. In Q3 2020, total shareholders' equity increased by +4.59% Q-o-Q while it grew by +18.63% Y-o-Y. Major drivers of the Y-o-Y growth in total equity were the retained earnings and other reserve components of the shareholders' equity which both grew by +26.77% and +27.41% respectively (*see Chart 58*).

Chart 58: Zenith Bank's Total Equity 2019 – 2020 (N'bn)

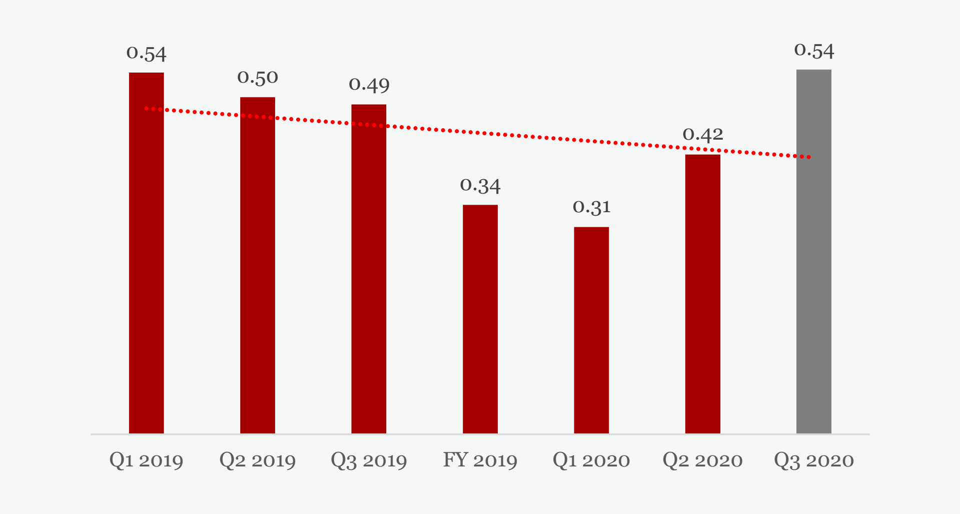


Source: Zenith Bank Financial Statement, Proshare Research

Zenith Bank – Leverage Ratio

Its leverage ratio for 2020 (Q1 – Q3 2020) saw a steady rise. This was because of the steady rise in the total debt of the Bank, despite the steady rise in total equity. In Q3 2020, the leverage ratio was 0.54 higher than 0.42 recorded in Q2 2020 and higher than 0.49 in Q3 2019 (*see Chart 59*)

Chart 59: Zenith Bank's Leverage Ratio 2019 – 2020

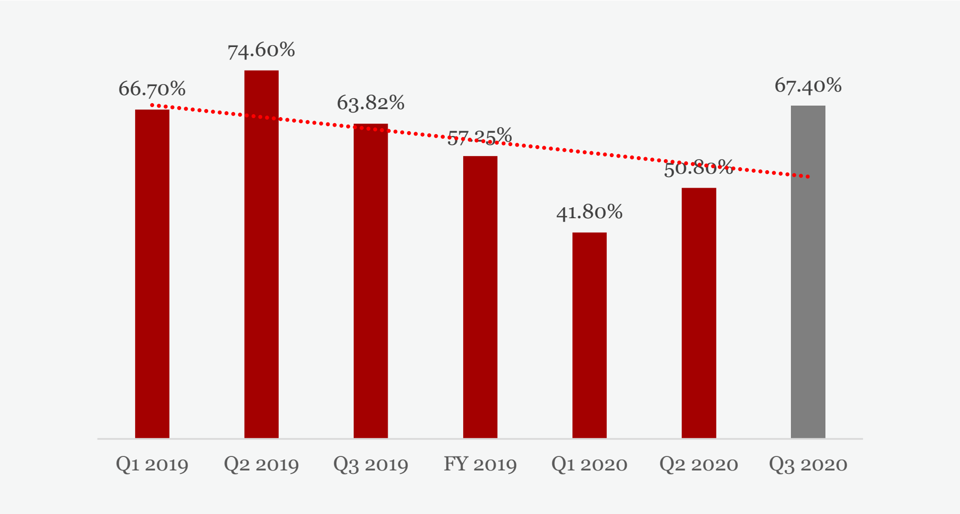


Source: Zenith Bank Financial Statement, Proshare Research

Zenith Bank – Liquidity Ratio

The liquidity ratio recorded during the period under review (Q1 2019 – Q3 2020) is well above the regulatory minimum of 30%. In Q3 2020, the liquidity ratio was 67.40% higher than 50.80% recorded in Q2 2020 (*see Chart 60*).

Chart 60: Zenith Bank's Liquidity Ratio 2019 – 2020



Source: Zenith Bank Financial Statement, Proshare Research

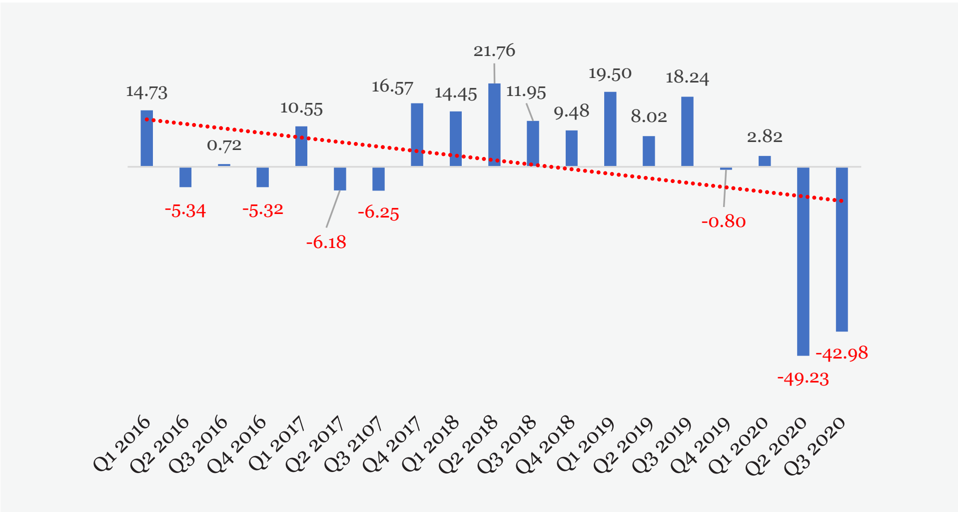
Transportation Sector

The negative impact of the COVID-19 pandemic on the transportation sector cannot be overemphasized seeing that the transportation sector is an integral part of an economy. The transportation sector plays an important role in the social and environmental aspect of the economy which was adversely affected by the induced lockdowns caused by the pandemic. The role the sector plays has multiplier effects such as better investment opportunities which leads to employment and better accessibility to markets for suppliers of goods and services.

Overall, the transportation and storage sector has declined for two consecutive quarters – the growth rate has been negative. Although the sector recorded a growth rate of 2.82% in Q1 2020 from -0.80% recorded in Q4 2019. However, the Q2 and Q3 2020 results reflected the adverse impact the pandemic has had on the sector (*see Chart 61*).

With the financial gap created by the pandemic in the transportation sector, it calls for increased collaboration of the government and private sector, re-evaluation and restructuring of the sector. This would increase the efficiency of the industry, thereby, aiding the development of other sectors and consequently push revenues for the overall economy.

Chart 61: Transportation and Storage Sector Growth Rate 2016 – 2020(%)



Source: NBS, Proshare Research

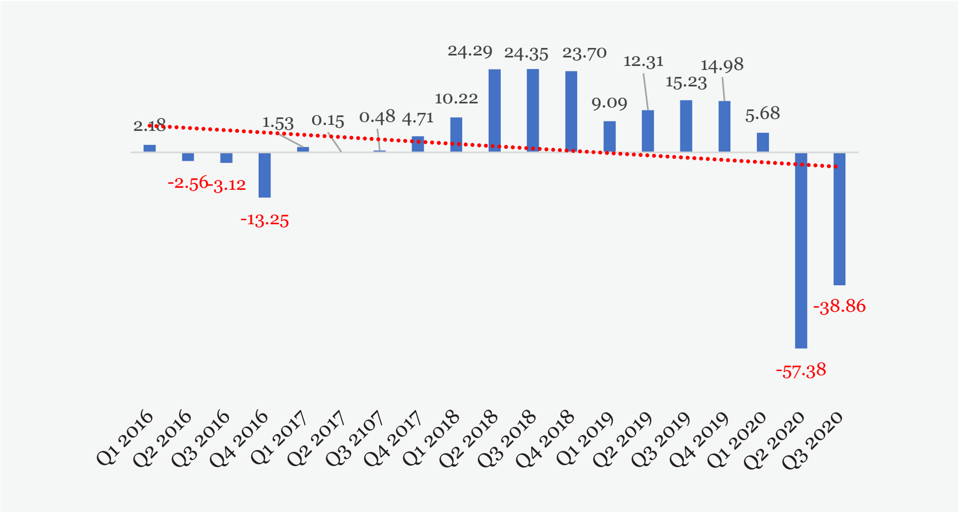
Aviation Sub-Sector

The aviation sector was one of the hardest hits by the COVID-19 pandemic. It led to major disruption of airline operations and reduced revenue generation by the sub-sector. The lockdowns and restrictions translated to the complete shutdown of major airports as local airports were closed with only essential flights allowed. Reduced revenue led to furlough and huge layoffs as most airlines would not meet their financial obligations.

Unlike in major economies around the globe, the intervention funds injected by the government into the aviation sector was insufficient. In a bid to recover from the downturn in profitability by these airlines and abiding by the COVID-19 rules, there was a spike in transportation fares of people and goods.

The sub-sector growth rate has seen a steady decline for two quarters consecutively. In Q2 2020, the severe impact of the pandemic on the growth rate of the sector was more pronounced, as it recorded a Y-o-Y decline of -57.38%, the highest decline the sub-sector had recorded in over eighteen quarters. In Q3 2020, the sub-sector had a lower decline of -38.86% Y-o-Y, although it was still a negative growth (*see Chart 62*).

***Chart 62:* Aviation Sub-Sector Growth Rate 2016 – 2020 (%)**



Source: NBS, Proshare Research

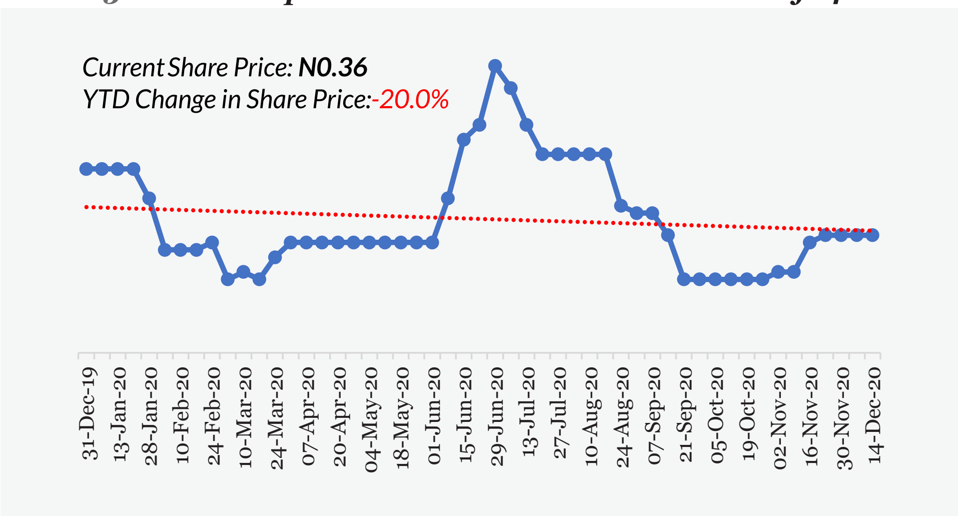
Case Study

ABC Transport Plc

ABC Transport Plc is a road transportation company that ferries goods and people across surface transport networks along the West African coast. The company is involved in haulage services, importation and sales of vehicle spares, installation of motor vehicle speed governing devices, assembly of heavy-duty trucks under the automative policy of Nigeria, and the hospitality business. The operations of the transport company were greatly impacted by the coronavirus-induced economy. Its top-line and bottom-line recorded declines.

Furthermore, there was an increase in the total debt of the company to meet its short-term obligations. Its share price also tanked during the peak of the pandemic. Lately, the company recorded a marginally increase in its share price, though, the share price has not returned to the pre-COVID price (*see Chart 63*).

***Chart 63:* ABC Transport YTD Share Price Movement as of 14 Dec 2020**



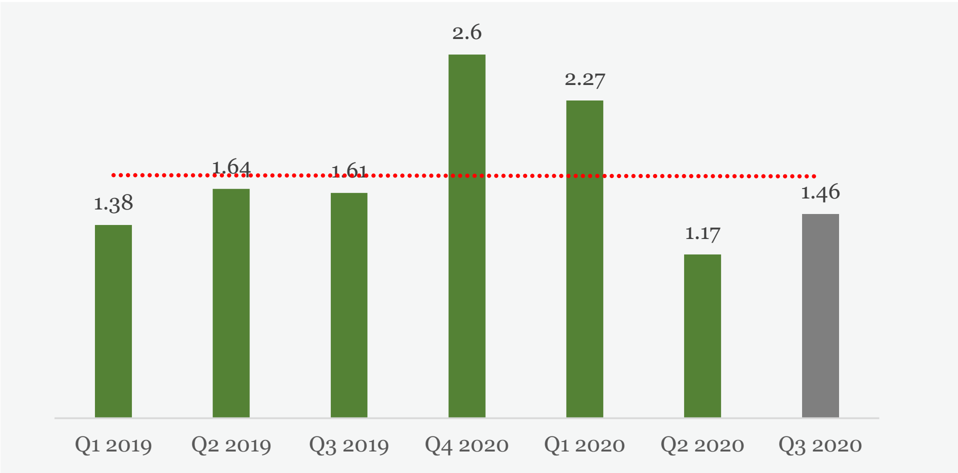
Source: NBS, Proshare Research

ABC Transport – Revenue

In response to lockdowns and restrictions induced by the coronavirus, its gross revenue declined by -48.52% Q-o-Q in Q2 2020. In Q3 2020, ABC transport recorded a Q-o-Q improvement in its revenue. But Y-o-Y, its revenue declined by -9.33% from N1.61bn in Q3 2019 to N1.46bn in Q3 2020.

For its nine months result, gross revenue increased by +5.58%, this was majorly driven by +206.97% growth in revenue from the sale of vehicles and spare parts, despite the decline in all other revenue segments of the transport company (*see Chart 64*).

Chart 64: ABC Transport Gross Revenue 2019 – 2020 (N'bn)



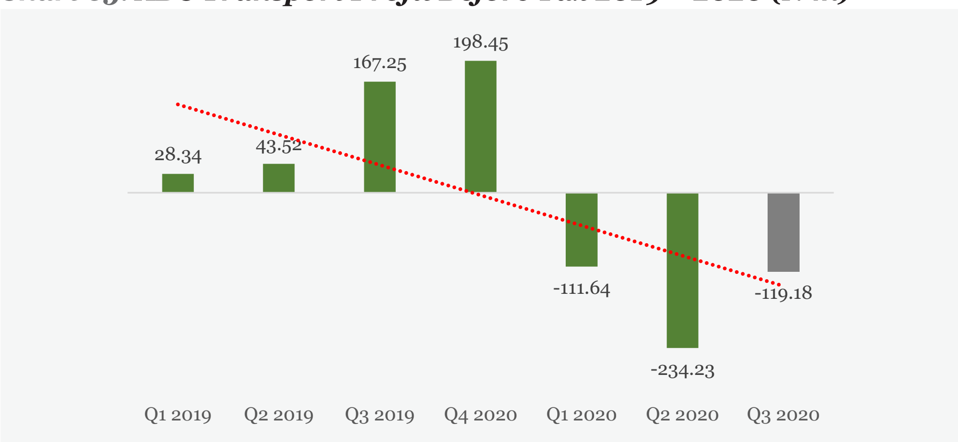
Source: ABC Transport Financial Statement, Proshare Research

ABC Transport – Profit Before Tax

ABC Transport results in 2020 (Q1 – Q3 2020) shows it made losses for three quarters consecutively. Quarter-on-Quarter, its PBT declined in Q1 2020 and Q2 2020 by -156.26% and -109.81% respectively which was a result of the adverse effects of the pandemic.

In Q3 2020, its PBT declined significantly by -171.26% from N167.25m in Q3 2019 to a loss position of N119.18m (*see Chart 65*).

Chart 65: ABC Transport Profit Before Tax 2019 – 2020 (N'm)

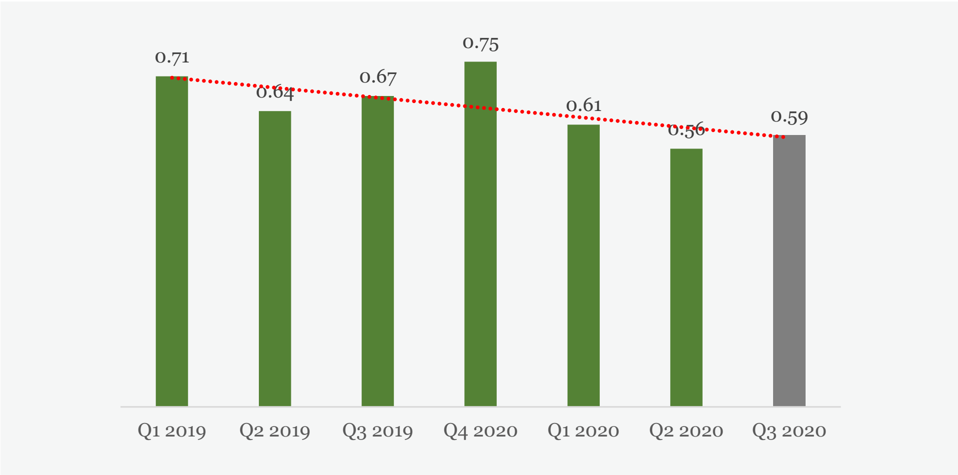


Source: ABC Transport Financial Statement, Proshare Research

ABC Transport – Current Ratio

A current ratio of 1.24 for a company that offers transport services is preferred which shows the company can meet its short-term obligations. ABC transport's current ratio for the period under review has been below 1 (one) which shows the company has liquidity challenges and may not be able to meet its short-term obligations (*see Chart 66*).

Chart 66: ABC Transport Current Ratio 2019 – 2020

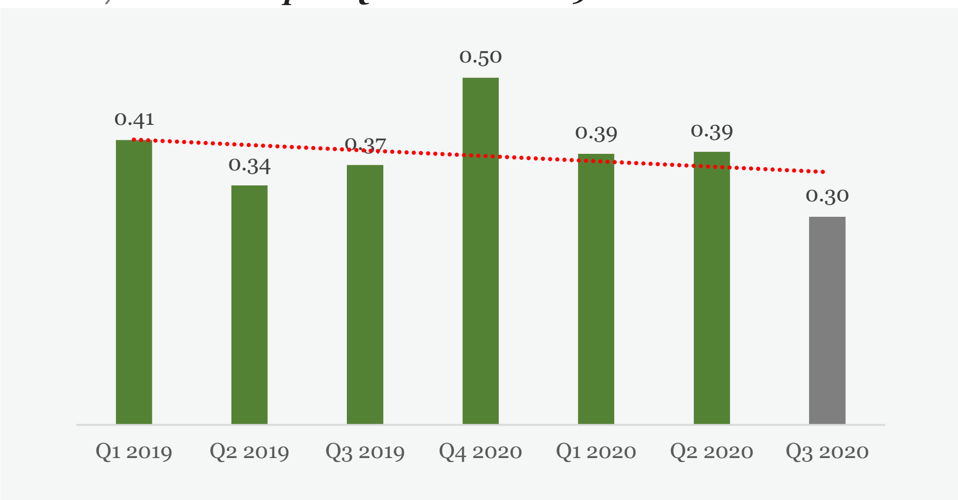


Source: ABC Transport Financial Statement, Proshare Research

ABC Transport – Quick Ratio

The ideal quick ratio (also known as the acid-test ratio) for a transport company is 1.14, which indicates that the company will be able to meet its short-term obligations without having to sell its inventory. The latest result released by the Transport Company (Q3 2020) shows a quick ratio of 0.30 which is the lowest the Company has released during the period under review. This indicates tight liquidity challenges that needs to be addressed by the company (*see Chart 67*).

Chart 67: ABC Transport Quick Ratio 2019 – 2020



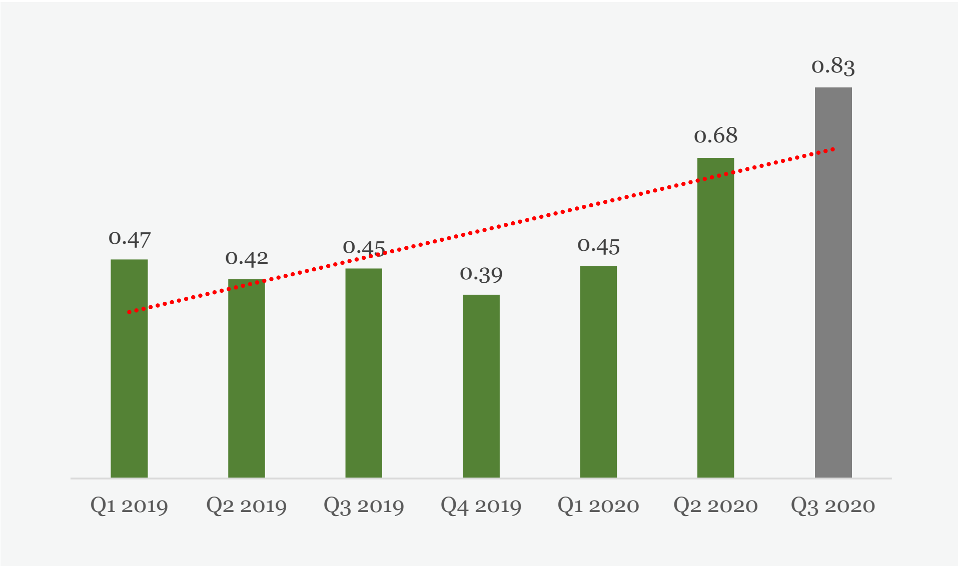
Source: ABC Transport Financial Statement, Proshare Research

ABC Transport – Leverage Ratio

For a highly capital-intensive company, the debt is expected to be twice the total equity – which means the company is expected to be highly leveraged. However, analysis has shown that the Company has diversified its operations and deals in selling of vehicles which drove the earnings upward for 9months 2020. Looking at its counterparts in the US which recorded a leverage ratio of 0.71 in the debt-to-equity ratio in 2019, one would say the Company is not highly leveraged because of its various revenue segments.

Historically, ABC Transport's leverage ratio has always been low. However, in Q3 2020 its leverage ratio was 0.83, the highest the Company recorded during the period under review. This was because of a +6.46% increase in total debt despite the -12.69% decline in total shareholders' equity (*see Chart 68*).

Chart 68:* *ABC Transport Leverage Ratio 2019 – 2020



Source: ABC Transport Financial Statement, Proshare Research

A Gaze Into Market Performance 2020

A Gaze Into Market Performance 2020

Fixed Income Market and Currency Market

Total Turnover of Fixed Income and Currency Market Turnover

The total turnover of the fixed income and FX market was choppy from the beginning of the year as global economic shortfalls had a severe impact on the market. The total turnover of the market started to decline in April 2020. The decline was driven by the downturn in economic activities both in the global and domestic economy caused by the COVID-19 pandemic. As economies began opening gradually, activities in the market also recorded slight increases. Despite the increase in activities recorded, the headwinds plaguing the market lingers.

The total turnover of the fixed income and currency market was N195.42trn between January-November 2020. In March 2020, it recorded the highest turnover between January – November 2020 of N25.66trn. While in May 2020, the lowest market turnover was recorded.

The OMO bill was the highest contributor to the total turnover of the market between January – November 2020, next were the foreign exchange transactions then the money market transactions which include the Repurchase Agreement (Repos) and Unsecured placements/Taking. Treasury bills transaction contributed the least to the total turnover of the market during the period under review (*see Chart 69*).

With fresh restrictions and lockdowns from the second wave of COVID-19 in Nigeria and around the globe, analysts believe that getting back to the pre-COVID era is still farfetched. Also, it is predicted that we may likely see a recovery and significant increase in transactions in the debt market by Q2 2021.

Chart 69: ***Fixed Income and Currency Market Turnover Dec 2019 – Nov 2020 (N'trn)***

Source: FMDQ, Proshare Research

A Deep Dive into The Market Complexities in 2020

FX Turnover

The currency market was hard hit in 2020, as the oil sector which is Nigeria's largest FX earner of the economy was hit by twin evils i.e., the fall in oil demand caused by the pandemic and the KSA-Russia price war. The CBN rolled out several management policies to support the downward trend of the Naira both on the I & E FX window and parallel market space, as the domestic currency almost spiralled out of control. It introduced policies such as lifting restrictions on diaspora remittances, weekly sale of FX to over 5000 BDC operators, and the devaluation of the domestic currency. The impact of the COVID-19 pandemic on the global economy led to the significant decline in Nigeria's Foreign portfolio investment in Q3 by -91.55% when compared with Q1 2020 and -86.55% when compared with Q3 2019.

The total FX turnover between January –November 2020 was $160.52bn representing a -24.24% decline from total FX turnover for the same period in 2019. Also, the total turnover of the currency market stood at $10.88bn (N4.21trn) in November 2020, the highest it recorded since April 2020. However, on a Y-o-Y basis, total turnover of the currency market declined by -47.21% (*see Chart 70*).

***Chart 70:* Total FX Turnover Dec 2019 - Nov 2020 ($bn)**

Source: FMDQ, Proshare Research

FX turnover by trade recorded a general decline in all categories. Member-Client was the largest contributor to total FX turnover between January – November 2020 recording $97.12bn for the period while Member-CBN and Inter-Member recorded $43.18bn and $20.22bn, respectively.

In November 2020, Member-Client declined by -39.88% Y-o-Y. However, the segment declined more significantly by -50.0% YTD. It contributed 69.41% to the overall decline in FX turnover by trade segment in November 2020. Inter-Member activity fell by +47.85% Y-o-Y to $1.58bn from $3.03bn recorded in November 2019, while on YTD, the segment declined by -51.53%. It contributed 14.52% to the overall decline for November 2020.

Member-CBN transactions declined by -63.14% Y-o-Y to $2.02bn from $5.48bn recorded in November 2019, it also declined by -69.07% Y-o-Y. It contributed 18.57% to the overall decline of the FX turnover by trade for the period (*see Table 18*).

Table 18: ***FX Turnover by Trade July 2019 – July 2020***

FX TURNOVER BY TRADE
JULY 2019 – JULY 2020

Monthly	Inter-Member ($ bn)	Member-Client ($ bn)	Member-CBN ($ bn)
Nov-19	3.03	12.11	5.48
Dec-19	2.64	10.7	5.15
Jan-20	3.26	14.56	6.53
Feb-20	3.01	16.15	7.96
Mar-20	2.94	14.91	11.07
Apr-20	1.36	6.81	3.19
May-20	0.88	4.71	2.03
Jun-20	1.03	5.31	2.29
Jul-20	1.55	7.51	1.76
Aug-20	1.61	5.96	2.19
Sep-20	1.36	5.86	1.44
Oct-20	1.64	8.06	2.7
Nov-20	1.58	7.28	2.02

Source: FMDQ, Proshare Research, Ecographics

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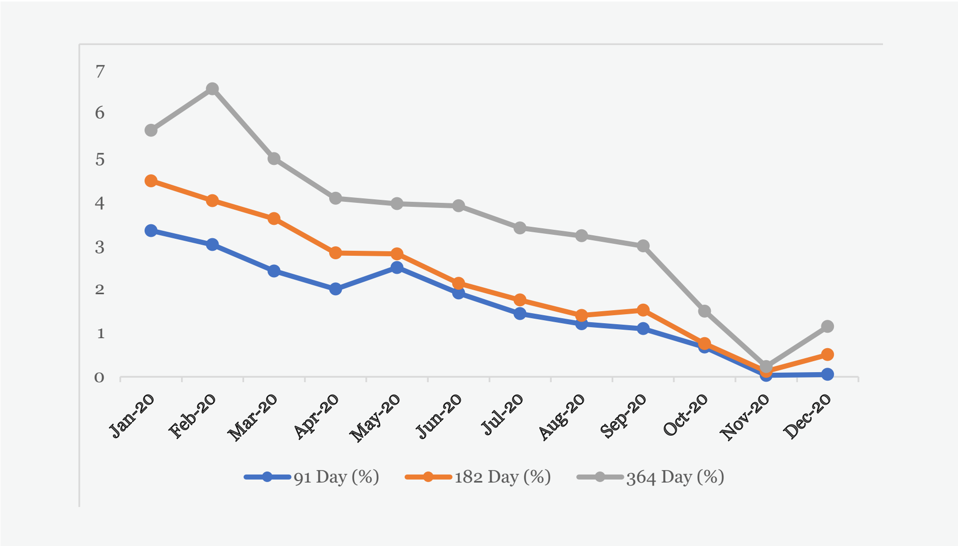
Fixed Income Market

Towards the end of 2019, the Federal Government of Nigeria bifurcated the bills (T. bills and OMO bills). The rates of T. bills have been on a steady decline with rates as low as 1.15% recorded in August 2020. Treasury bills fell to record lows in 2020, because of increased demand for government instruments owing to a flight to safety by both institutional and retail investors. Also, the slim investment opportunities in the domestic market pushed yields to depressing levels. Prices move inversely to yields, that is, an increase in demand for these instruments pushes the yields down. The highest average discount rates of T. bills at the primary market were recorded in January 2020, the rates started to decline in March and continued for the rest of the year.

The Nigerian treasury bills market contributed 54.13% to the total turnover of the fixed income and currency market. Average discount rates at the primary market for the 91-day T-bill for 2020 was 1.63%, while the 182-day and 364-day notes were 2.15% and 3.45% respectively.

Oversubscription of the Nigerian treasury bills was the norm in the fixed income market for the year 2020 due to increased demand for the instrument. However, the oversubscription trend gradually declined towards the end of the year. Despite the reduction in oversubscription, the instruments oversubscription persisted in the year. In January 2020, 91-day was oversubscribed by 792.48% while the 182-day and 364-day T. bills were oversubscribed by 230.56%, and 43.79% respectively. In August 2020, the same tenors were oversubscribed by 53.07%, 77.54%, and 7.64% respectively, while the 364-day bill was undersubscribed. The decline in the oversubscription trend could be attributed to depressed yields and a move to the Nigerian equity market by investors (*see Chart 71*).

***Chart 71:* Average Discount Rate for T. Bills at the Primary Market 2020 (%)**



Source: FMDQ, Proshare Research

The FGN Bond also recorded declines in marginal rates at the primary auction market, average rates across all tenors for 2020 was 9.38%, which is lower than the 14.05% recorded in 2019 (*see Table 19*).

***Table 19:* FGN Bond Coupon Rates in 2020**

FGN BOND COUPON RATES IN 2020

	5-Yr Bond (%)	10-Yr Bond (%)	15-Yr Bond (%)	25-Yr Bond (%)	30-Yr Bond (%)
Jan-20	9.85	11.13	N/A	N/A	12.56
Feb-20	8.75	10.7	N/A	N/A	12.15
Mar-20	10	N/A	12.5	N/A	12.98
Apr-20	9	N/A	12	N/A	12.5

	5-Yr Bond (%)	10-Yr Bond (%)	15-Yr Bond (%)	25-Yr Bond (%)	30-Yr Bond (%)
May-20	9.2	N/A	11.7	N/A	12.6
Jun-20	8	N/A	11	N/A	12.15
Jul-20	6	N/A	9.5	9.8	9.95
Aug-20	N/A	6.7	9.35	9.75	9.9
Sep-20	N/A	6	8.52	8.9	8.94
Oct-20	N/A	N/A	4.97	6	N/A
Nov-20	N/A	N/A	5	5.79	N/A
Dec-20	N/A	N/A	6.95	7	N/A

Source: DMO, Proshare Research, Ecographics

The oversubscription trend was also seen in the bonds market; however, long-term instruments were oversubscribed more than the short-term and mid-term instruments.

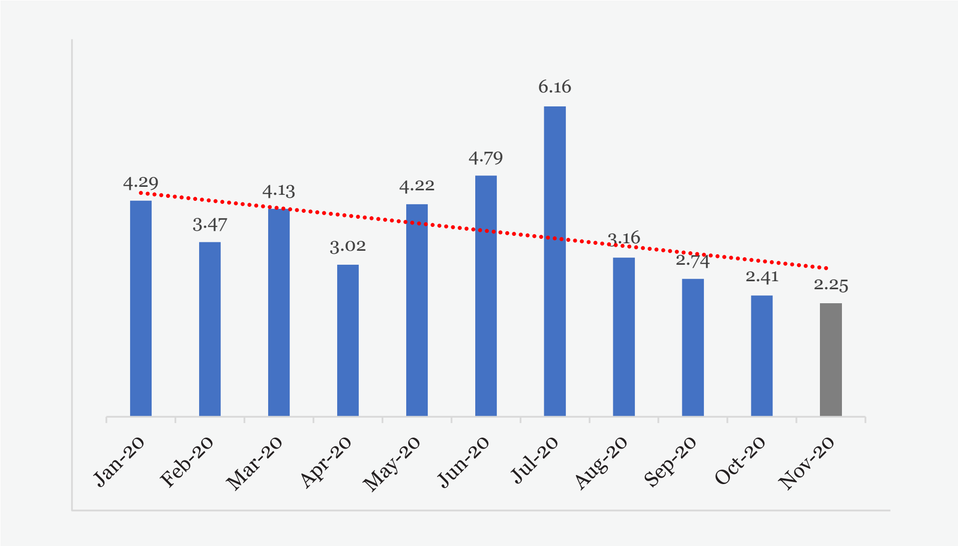
At the secondary market, bond yields fell below 1% in Q4 2020. Also, bonds issued in December were revised downward before their issue, and the amount allotted was lower than what was offered.
For the FGN savings bond, the offer for subscription was suspended during the peak periods of the pandemic. This could be attributed to efforts by the government to encourage people to spend in a pandemic rather than save. Offering savings bond auction during the peak of the pandemic would have been counterproductive as the government was also involved with quantitative easing during the period.

Inflation-adjusted yields across all tenors of Treasury bills and government bonds were negative in 2020.

Total Money Market Turnover

The total turnover of the money market for the year 2020 (January – November) was N40.64trn, which represents 20.8% of the total turnover of the fixed income and currency market. The total turnover in the money market declined Y-o-Y by -6.40% from N43.42trn recorded in the same period in 2019 to N40.64trn in 2020. This was majorly driven by a -44.29% Y-o-Y decline in unsecured placements/takings while repos/buy-Backs declined Y-o-Y by -6.95% to N38.82trn recorded for the period (*see Chart 72*).

Chart 72: ***Total Turnover in the Money Market Jan - Nov 2020 (N'trn)***

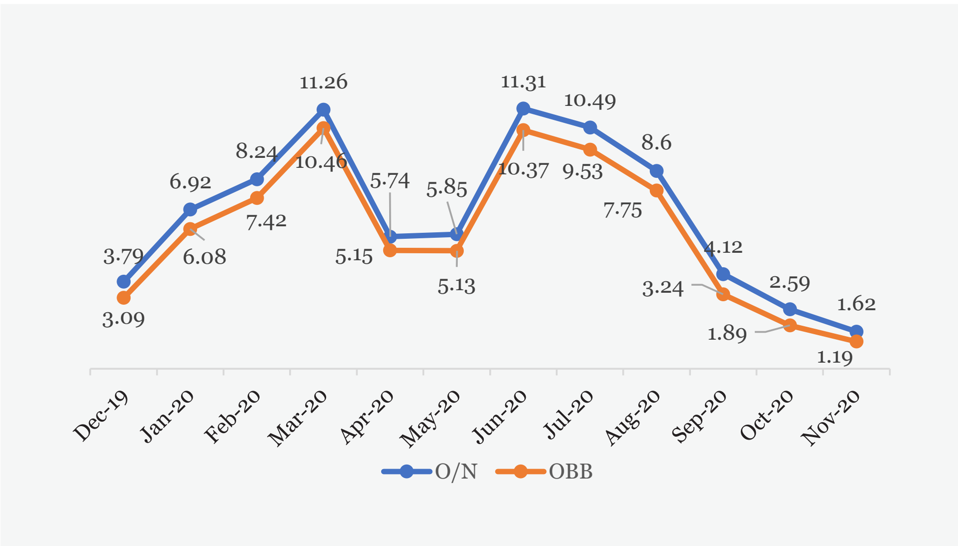


Source: FMDQ, Proshare Research

Money market instruments have little or no risk as they are backed by the full faith of the Federal Government. Therefore, rates react to the risk appetite of investors amid a tumultuous economy. For the Nigerian fixed income market, the rates responded to the pandemic-induced economy and the slim investment opportunities available. Rates were highest during the peak of the pandemic and declined towards the end of the year which indicated robust liquidity in the system.

Furthermore, money market rates were volatile for most of the trading session in 2020. Overnight (O/N) and Open Buyback (OBB) moved in the same direction in 2020, although, O/N rates recorded higher rates than the OBB. O/N and OBB recorded their highest rate of 2020 in March and June respectively, while rates started to decline at the tail end of the year (*see Chart 73*).

Chart 73: ***Average O/N and OBB Rates Dec 2019 – Nov 2020***



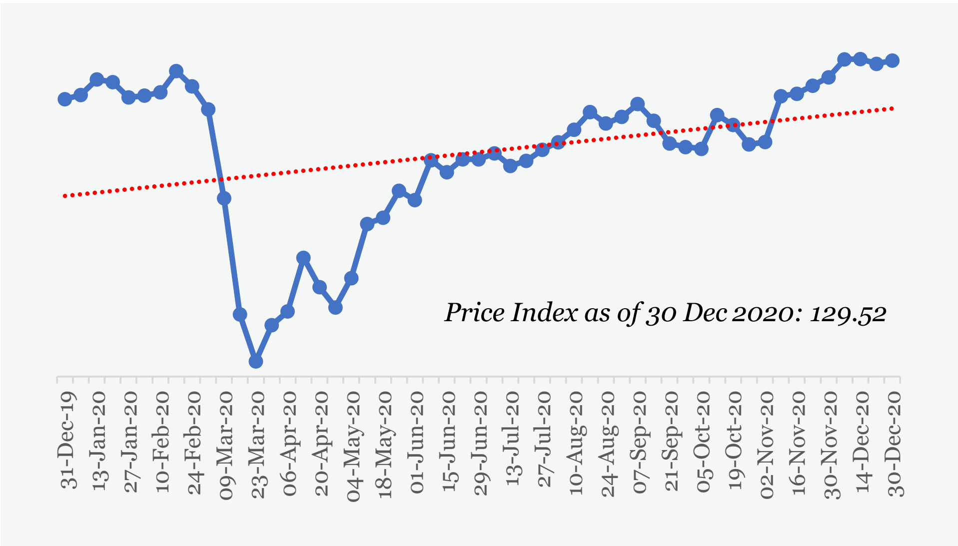
Source: FMDQ, Proshare Research

FGN Eurobond

The price and yield movement of a eurobond instrument is largely impacted by the health of the issuing country. In Nigeria's case, the FGN eurobond instrument is considered a risky instrument as the economy is highly dependent on foreign earnings from oil which is exogenously determined. Therefore, the movement in price and yield of the FGN Eurobond was majorly driven by movement in oil price and most recently the COVID-19 pandemic. Also, news of the US stimulus package and the vaccine for the coronavirus boosted investor confidence in the instrument as yields declined and the price rose towards the end of the year (Prices move inversely with yields).

The price index movement of the FGN Eurobond had a bullish flag for 2020, at the peak of the pandemic, the price index fell as low as 77.61. However, with the gradual reopening of economies and hope for economic recoveries across major economies, the price index picked up at the tail end of the year i.e., the price index was higher than the pre-COVID era. It rose YTD by +4.79% as of 30th December 2020 (*see Chart 74*).

Chart 74: ***FGN Eurobond YTD Price Index for 6.75% US$500m Jan 2020***



Source: Cbonds, Proshare Research

Outlook for The Fixed Income and Currency Market

COVID-19 has been an economic and human disaster. However, with the roll-out of various vaccines and subsequent approvals from major economies, there is cautious optimism that the next new normal will emerge sooner than expected. The year 2021 will be a year of transition and gradual recovery for the Nigerian economy, despite concerns that the low yields in the fixed income environment will unlikely change.

The scale of fiscal/quantitative easing in response to the COVID-19 crisis was unprecedented both for global economies and the domestic economy in 2020. G-20 countries' fiscal packages are estimated at more than $10trn, while for the Nigerian economy debt stock as of Q3 2020 was $84.57bn with total external debt accounting for 37.82% of the total debt stock and domestic debt 62.18% of the total debt.

Maintaining fiscal deficits and the elevated levels of public indebtedness may pose serious challenges down the line for the FGN bonds market. However, for the corporate bonds and commercial papers (CPs), there is headroom for improvement in 2021. In the pre-COVID years, the yields from fixed income instruments were in double digits, however, going forward, that may not be the case for the fixed income market. To enhance yield for the FGN bonds and treasuries, investors may consider investing in longer-term instruments and slightly extend the duration of these instruments. Also, risk-tolerant investors may consider focusing on assets that will do well during periods of rising inflation such as real estate, commodities, and equities i.e., equities recorded a performance of +50.03% in 2020.

Investing in fixed income products is subject to certain risks including the interest rate and inflation. Analysts believe the equity market is likely to outperform the fixed income and currency market in 2021, although the market is very volatile. To navigate volatility, government bonds, and CPs of companies with good fundamentals and brand reputation may provide the most efficient buffer against equity volatility.

As mentioned earlier, there is headroom for improvement in raising CPs and corporate bonds by corporate institutions as it is cheaper to raise debt in the debt market than loans from commercial banks. In 2020, the likes of Dangote Cement, MTN Nigeria, and several others were able to issue over N300bn in CPs at different series which were mostly oversubscribed (*see Table 20*).

Table 20:* *Commercial Papers Issued in 2020

QUOTED COMMERCIAL PAPERS STATUS – AS OF DECEMBER 22, 2020

Issuer	Issue Amount (N'bn)	Series	Issue Date	Tenor	Discount Rate	Maturity Date	Issuer Rating (s)
CardinalStone Partners Limited	5	1	24-Aug-20	270	6.66	21-May-21	Bbb-/Agusto & Co; BBB-/GCR
Coronation Merchant Bank Limited	9	10	01-Jun-20	270	6.88	26-Feb-21	A+/Agusto & Co
Dangote Cement PLC	34	18	08-Sep-20	268	4.82	03-Jun-21	Aa2.ng/Moody's; AA+/GCR
	16	17	08-Sep-20	177	3.92	04-Mar-21	
	66	16	21-May-20	266	5.75	11-Feb-21	AA+/GCR
Flour Mills of Nigeria PLC	20	14	27-Apr-20	269	7.33	21-Jan-21	BBB+/GCR
FSDH Merchant Bank Limited	23.6	2	30-Oct-20	266	3.5	23-Jul-21	A/Agusto & Co; A-/GCR
Guinness Nigeria PLC	2.5	2	22-Jun-20	270	6.2	19-Mar-21	A-/Agusto & Co.

Issuer	Issue Amount (N'bn)	Series	Issue Date	Tenor	Discount Rate	Maturity Date	Issuer Rating (s)
Mixta Real Estate PLC	5.67	31	16-Nov-20	270	5.75	13-Aug-21	BBB-/DataPro
	1.34	30	16-Oct-20	270	7.11	13-Jul-21	
	3.68	29	24-Sep-20	270	7.11	21-Jun-21	
	2.39	28	25-Aug-20	269	7.11	21-May-21	
	1.5	27	09-Jul-20	270	8.44	05-Apr-21	
	1.03	26	09-Jul-20	187	7.7	12-Jan-21	
	0.5	25	22-Jun-20	269	8.44	18-Mar-21	
	1.24	23	28-May-20	266	8.45	18-Feb-21	
	0.57	21	17-Apr-20	270	8.88	12-Jan-21	
MTN Nigeria Communications PLC	80	2	08-Jun-20	270	5.7	05-Mar-21	Aa/Agusto & Co; AA/GCR
Nigerian Breweries PLC	10.1	11	02-Nov-20	240	3.13	30-Jun-21	Aa-/Agusto & Co; AA/GCR
	7.15	10	02-Nov-20	183	2.96	04-May-21	
	3.1	9	02-Nov-20	120	2.78	02-Mar-21	
	24.33	8	15-Apr-20	268	6.66	08-Jan-21	
Stanbic IBTC Bank PLC	22	1	08-Dec-20	268	0.99	02-Sep-20	AAA(nga)/Fitch; AA/GCR
Union Bank of Nigeria PLC	15	7	13-Nov-20	180	0.75	12-May-21	A-/Agusto & Co; A-/DataPro Ltd
	2.5	6	22-Oct-20	270	4.12	19-Jul-21	
	17.5	5	22-Oct-20	180	3.68	20-Apr-21	
United Capital PLC	15	3	01-Dec-20	269	1.25	27-Aug-21	A-/Agusto & Co; A/DataPro

Source: FMDQ, Proshare Research, Ecographics

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The trend of oversubscription is also expected to continue in 2021 as there are tight investment opportunities and institutional investors such as the Pension Fund Administrators (PFAs) of the National Pension Commission (PenCom) are mandated to invest a large percentage of Pension Funds in instruments backed by the full faith of the Federal Government. While in investing in corporate bonds or commercial papers such instruments must have a minimum credit rating of 'BBB' issued by at least two rating agencies. Going forward, investors may consider looking at the fundamentals of corporate institutions and not just sentiments before investing.

Currencies: Navigating Grey Skies

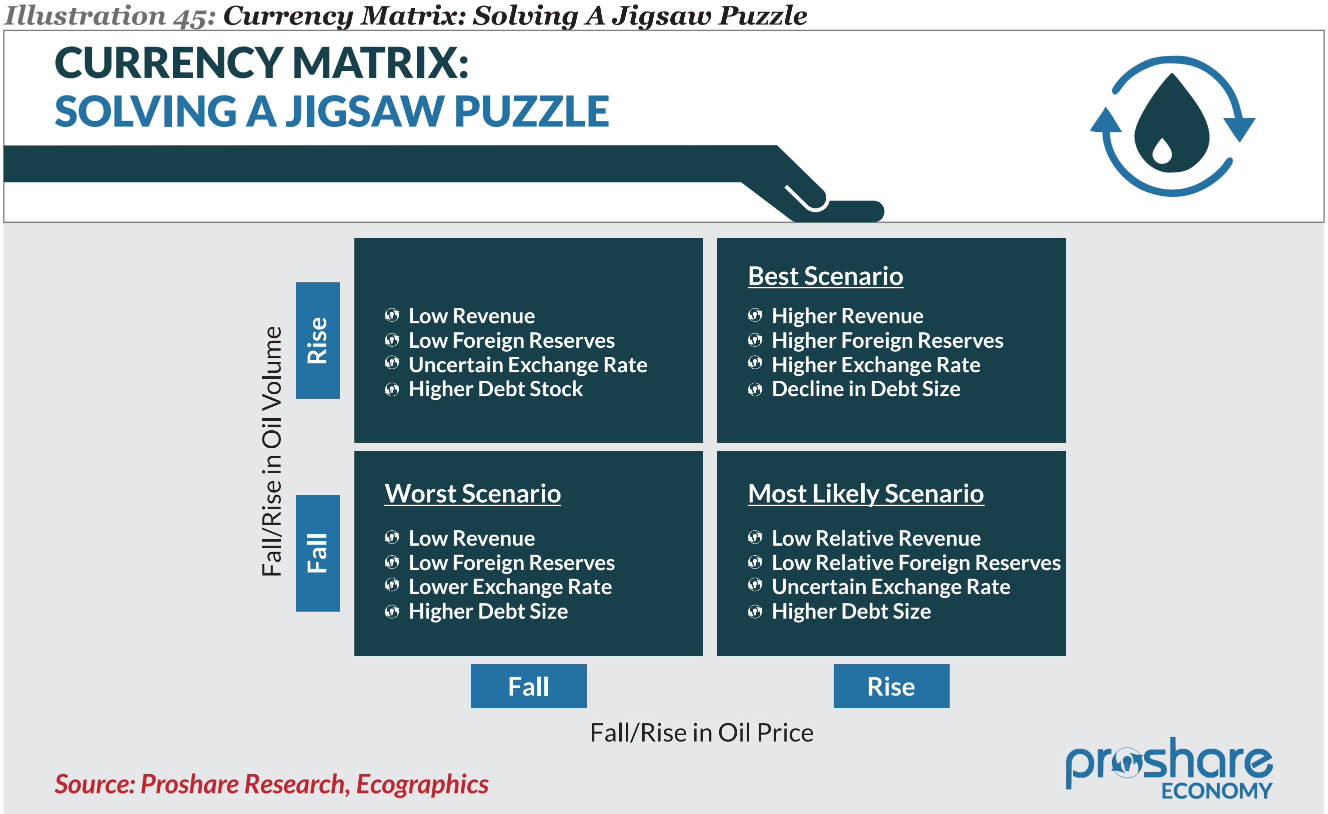
On the currency front, the dollar in the global market will most likely continue its bearish trend which started at the tail end of 2020. It is forecasted that there will be a positive appetite for risky currencies especially currencies of emerging markets, which will likely trend upwards if the current momentum of recovery is sustained. However, a lockdown will reverse this trajectory if there is further spread of the new strain of the coronavirus.

In 2020, the CBN adjusted/devalued the naira on three occasions to ease the pressure on the domestic currency and to reduce the gap between official rates and parallel rates as this was one of the conditions needed to be met by the Federal Government to access some multilateral loan instrument. Despite CBN's efforts, Nigeria's lower FX earnings widened the gap between the two markets. The decline in FX inflows also put pressure on the foreign reserves, as of 30 December 2020 foreign reserves had declined by -8.25% YTD.

Although the inflow of foreign loans and a slight uptick in oil prices managed to ensure some level of stability of the foreign reserves, this approach is not sustainable in the long term in ensuring a stable exchange rate. A longer-term solution could be improving non-oil export competitiveness significantly to diversify FX earnings for the economy.

According to the CBN, it injected $4.37bn in Q3 into the foreign exchange market as part of its efforts to ensure the stability of the Naira. These efforts by the CBN are expected to continue going forward in 2021. Although the Naira is expected to marginally depreciate, however, this depends on various factors and uncertainties such as the price and volume sold of crude oil which is largely beyond the control of the Nigerian government (*see Illustration 45*).

Illustration 45: Currency Matrix: Solving A Jigsaw Puzzle



Equities

Ranking the Global Markets in 2020

The year 2020 brought a rapid and unpredictable change to global economies and stock markets with an unprecedented health crisis that disrupted markets throughout the year. As the COVID-19 pandemic escalated, the year was characterized by a fall in oil prices and the Russia-Saudi Arabia oil tiff.

Analysts note that the year 2020's 'Coronavirus Crash' was a major market tumble that began on the 20th of February 2020. With several businesses remaining operationally comatose over the period, labour became the whipping boy as companies laid-off workers like nine pins. Consequently, there was a sharp reduction in consumption and output, resulting in corporate revenues tanking. During the crash stock prices and stock markets went into freefall; Central Banks globally started quantitative easing ('QE') and governments primed fiscal pumps as they tried to stave off recessions.

The hospitality, oil and gas, tourism, transport, construction/real estate, and retail sectors were hardest hit, while some sectors were mildly affected by stock price declines. Sectors that proved to be countercyclical were- technology and software, essential goods, and consumer goods. Technology stocks benefitted from the positive outlook of increased earnings as consumers worked from home, spent their money online as e-commerce platforms saw revenue surge. The decline in government bond yields supported technology stocks as investors considered them as hidden value opportunities or growth stocks expected to increase their earnings over the medium to long-term.

At the end of Q2 2020, economies globally started opening up after the Q1 lockdown. Rising fiscal stimulus, lower interest rates, and broader Central Bank interventions added liquidity which propped equity markets up. The global fiscal interventions boosted confidence and supported equity markets in the US, Europe, and Asia.

Emerging markets such as Thailand, Chile, Brazil, and the Philippines have not left out the anti-recession dogfight. These countries too saw their governments go deeper into debt to support economic growth. The impact of COVID-19 on global economic growth differed across markets, but weaknesses of emerging or frontier economies were exposed as fiscal deficit, foreign capital dependence, and contraction of GDP weighed heavily against weaker economies. As countries navigate new paths to recovery, emerging markets seem resolute in reaching points of economic revival.

Top Five Performing Stock Markets in The World

America (NASDAQ Composite Index and The Breakout of Tech Stocks In 2020): +42.74%

The NASDAQ is the second-largest stock and securities exchange in the world, behind only the New York Stock Exchange (NYSE). The NASDAQ attracts some of the largest blue-chip companies globally with representatives from high-tech software, hardware computer, and internet service companies such as Apple, Amazon, Microsoft, Intel, Cisco Systems, and Netflix present on the Exchange, although other industries have representatives on NASDAQ as well. The NASDAQ Index tends to be more volatile and growth-focused than other indexes because it has a higher composition of growth-oriented companies.

The tech-heavy NASDAQ topped Proshare's list of gainers in 2020. The industry's biggest players: Amazon, Apple, Facebook, Alphabet, and Microsoft were somewhat well placed to rise to the challenges of the coronavirus pandemic as the virus accelerated digitalization around the world. For example, Zoom Technologies Inc, the go-to video conferencing platform during the pandemic, recorded an increase in its stock price by +464% from US$68.04 on December 31st, 2019 to US$383.88 as of December 23rd, 2020.

The overall NASDAQ Index closed the year up by +42.74% to 12,807.92 points as of 22 December 2020 from 8,972.6 points recorded on 31 December 2019.

America (S&P 500)

America's S&P 500 index closed the year in the green with a growth of +14.13% from 3,230.78 points as of 31 December 2019 to 3,687.26 points on 22 December 2020. the biggest movers for the S&P were stocks in the Medical Specialties, Information Technology Services, Semiconductors, Data Processing Industries such as Nvidia Corporation, Paypal Holdings.

The recent signing of a coronavirus aid bill and rollout of vaccines have increased expectations that the economy will quickly rebound from the pandemic, fuelling gains in the market.

South Korea (KOSPI Composite Index): +26.79%

The KOSPI index stood out in 2020 compared to other Exchanges across the Asia Pacific. South Korea's KOSPI index recorded the highest gain Y-o-Y ahead of the Nikkei 225, Shanghai Composite Index, Taiwan Weighted Stock Index, and Bursa Malaysia (KLSE). The index gained +26.79% to close at 2,759.82 points on 22 December 2020 from 2,176.67 points recorded on 31 December 2019.

South Korea's GDP rebounded by +2.1% in Q3 2020 after contracting by -3.2% in Q2 2020 riding on its weakest growth amid the pandemic. The country's exports, which accounts for half of the economy rebounded on the back of an increase in the export of semiconductors and chipmakers (the second largest in the world). Also, the South Korean government's push for more development in Artificial Intelligence (AI) increased the demand for these products.

This move came at the right time as countries sought the need to ramp up digitization and tech stocks around the world recorded a surge in share prices. The KOSPI Index increased in valuations based on a potential increase in earnings in 2021 therefore, more healthcare stocks and battery stocks became large caps.

Taiwan (The Taiwan Weighted Index): +18.55%

The Taiwan Weighted Index grew by +18.55% from 11,997.14 points it closed at on 31 December 2019 to 14,223.09 points. The global forecast for the Asian markets has been cloudy, with coronavirus concerns offset by vaccine optimism. This year, with the rise in technology stock prices, the Taiwan Exchange has been a major beneficiary as investors sought safety in companies such as semiconductor producers. The Exchange market also gained from a slew of liquidity resulting from QE. However, the Central Bank's stricter mortgage rules left buying interest in the home purchase market in the dumps.

Taiwan Semiconductor Manufacturing Company (TMSC) the most heavily weighted stock on the market with other bellwether tech heavyweights experienced increased investor sentiment as investors looked for where to put their money. TMSC share price rose by +53.96% from 334.50TWD on 30 December 2019 to 515TWD as of 28 December 2020.

China (SSE 180 Index - Shanghai): +14.29%

The Shanghai Stock Exchange grew by +14.29% to 10,254.81 points from 8,972.92 points on 31 December 2019. Despite prevailing uncertainties marked by the COVID-19 outbreak, as well as political, social, and economic concerns in China the markets have seen a string of initial public offerings (IPOs) and an intense rally in share prices of consumer and technology companies. One of the reasons for the performance of the Exchange is the overall resilience of China as it became the first major economy to return to post-coronavirus growth, this shored up confidence in the equities market. Stocks of internet groups, Technology such as Tencent Holdings have surged as consumers pivoted to online lifestyle during the pandemic (E-commerce, Technology, Food Delivery, Health-Tech, Gaming).

China's IPO market has seen increased listings in 2020 despite the economic challenges on the back of global investor demand for growth stocks, liquidity available from government stimulus policies, coupled with the US-China trade tensions, have caused more Chinese companies to seek primary or secondary listings on the Chinese Exchanges.

Shanghai, Shenzhen, and NASDAQ Exchanges led the number of deals in Q3 2020, accounting for 54% of global IPOs. Shanghai dominated global exchanges by proceeds in Q3 2020, accounting for 25% of global IPO proceeds, Technology, health care, and industrials were the most active sectors on these four exchanges. YTD 2020's largest listings included the listing of Semiconductor Manufacturing International Corp. (US$7.5b) on the Shanghai STAR Market, JD.com Inc. (US$4.5b) on the Hong Kong Stock Exchange. IPO activity in Asia-Pacific is on track to well-exceed 2019 volumes and proceeds on the back of some mega transactions completed and in progress" according to a report by Ernst & Young on Global IPO Trends in Q3 2020.

*Table 21: **Best Performing Markets in 2020***

BEST PERFORMING MARKETS IN 2020

Exchange	Country	31-Dec-19	22-Dec-20	% Change
Nasdaq	USA	8972.6	12807.92	42.74%
Ks11	South Korea	2176.67	2759.82	26.79%
Taiwan Weighted	Taiwan	11,997.14	14223.09	18.55%
SSE 180 Index (Shanghai)	China	8972.92	10254.81	14.29%
S&P500	USA	3230.78	3687.26	14.13%

Source: Bloomberg, Proshare Research, Ecographics

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Top Five Lowest Stock Markets Performance in The World

Austria (ATX): -15.04%

The ATX topped the list of laggards in 2020. The Austrian Traded Index is a capitalization-weighted index of the most heavily traded stocks on the Vienna Stock Exchange, as of 2019 the exchange comprised of 20 stocks. The index recorded the highest losses with a -15.04% decline from 3,186.94 points on 31 December 2019 to 2,707.52 points as of 22 December 2020. The decline of the ATX index was affected by the cyclical component of heavy-weight stocks in the financial, oil, and steel sectors listed and are currently causing a downturn, whereas in an economic recovery the stocks have a high potential for a rebound.

United Kingdom (FTSE 100): -14.44%

Britain was in the eye of the coronavirus storm as restrictions on traffic between the UK and other countries raised the pressure on supply chains, Brexit uncertainty, coupled with fresh lockdowns to prevent the new strain of coronavirus sweeping across southern England from spreading to the continent weighed on the capital market. The FTSE 100 ('Footsie') suffered its worst year since 2008. It declined by -14.44% from 7,542.44 points on 31 December 2019 to 22 December 2020. During the market crash in February where global markets were at an all-time low, heavy fall were followed by a massive selloff on the bourse in March as investors braced for a recession. The FTSE 100 lagged and has since been playing catch-up. The British market has a high concentration of cyclical stocks in the Oil and Gas, Industrial, Financial Services, and Construction sectors which stalled the recovery. During the year, there was still a great deal of uncertainty about the **future path of the market**, with fresh lockdowns and disruption posing a major threat but a reversal flickers on the horizon.

While the Footsie is still down 14% Year-to-Date, it has seen a steady rise in December and received a boost after a trade deal with the EU was reached and another vaccine was approved.

Singapore (Straits Times Index): -12.67%

The Straits Time Index declined by -12.67% to 2,827.81 points on 22 December 2020 from 3,238.07 as of 31 December 2019. It is a capitalization-weighted stock index that is regarded as the benchmark Index for the Singapore stock market. It tracks the performance of the top 30 companies listed on the Singapore Exchange. The major contributing factor to the decline is the component of the stocks listed; the stocks are pro-cyclical in composition representing real estate, financial Services, and manufacturing sectors which took major hits during the pandemic.

Belgium (Bel 20): -8.80%

The BEL 20 is a free-float market capitalization-weighted index that reflects the performance of the 20 largest and most actively traded shares listed on Euronext Brussels and is the most widely used indicator of the Belgian stock market. The index had its share of downturns because of the pandemic which slowed down economic activities. The index fell to a low of 2,528.77 points in March 2020 from 3,967.18 points in January 2020, then recovered in June to 3,540 points. Although the index is lagging in terms of recovery compared with other indices, the Bel 20 proves resilient as it struggles to rebound to pre-pandemic levels. Year-to-Date, the index declined by -8.80%.

France (CAC 40): -8.55%

The CAC 40 is a free-float market capitalization-weighted index that reflects the performance of the 40 largest and most actively traded shares listed on Euronext Paris and is the most widely used indicator of the Paris stock market. the Paris bourse ends the year in red with a -8.55% decline in 2020 to 5,466.86 points as of 22 December 2020 from 5,978.06 points on 31 December 2019.

French stocks tumbled this year as France dealt with its share of coronavirus concerns with over 2 million cases and 190,00 deaths in the country. Lockdown measures, uncertainties about the Brexit negotiations and economic downturn weighed in on the market.

Stock markets in Europe have been the laggards in 2020 but saw renewed optimism after European Union (EU) officials and British lawmakers approved a separation deal that will govern trade and other relations from 2021 in addition to the new roll-out of vaccines helping boost sentiment and spur the markets to recovery in the near term. the outlook for the French index in the days ahead is optimistic.

Table 22: ***Worst Performing Markets in 2020***

WORST PERFORMING MARKETS IN 2020

Exchange	Country	31-Dec-19	22-Dec-20	% Change
ATX	Austria	3186.94	2707.52	-15.04%
FTSE 100	UK	7542.44	6453.16	-14.44%
Straits Times (STI)	Singapore	3238.07	2827.81	-12.67%
BEL-20	Belgium	3955.83	3607.72	-8.80%
CAC 40	France	5978.06	5466.86	-8.55%

Source: Bloomberg, Proshare Research, Ecographics

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Outlook for Global Markets

As the global markets recover from the initial shock of COVID-19, which created extreme market volatility in Q1 2020, digital transformation became the defining market trend of 2020 as businesses, consumers and families learned how to live in an online world. Major subjects of conversation were on how technology will influence future production and consumption as technology stocks were the first to record a boost in earnings as consumers worked from home, spent online, and made technology purchases.

The global economic backdrop remains uncertain with the second wave of COVID-19 infections upon us and another round of lockdown measures in some countries. While the unprecedented financial and monetary stimulus packages announced by governments worldwide have so far provided support, there is several unknown variables that continue to weigh on market sentiment. There is mild optimism that global equity markets will begin to edge up as supply chains become restored, manufacturers increase sales volumes and workers get back to their jobs on the back of a COVID-19 vaccine that would likely cover most of Europe and America by Q2 2021 and other continents between Q3 and Q4 2021.

Investors will most likely look for stocks with the potential to outperform in the next few years. Investors will look out for megatrends such as: digital transformation, healthcare innovation, and sustainability.

Nigeria – All Share Index

The year started with the launch of the growth board as part of the NSE's strategies to encourage companies with high growth potential on the exchange as we reported previously in the article **"Growth Board To Roar As NSE's ASeM Slowly Disappears"**. The board was designed to encourage the listing of companies, which are active in their respective sectors and have exhibited growth potential with good corporate governance standard characterized by less stringent listing requirements, that provide greater accessibility for growth-oriented companies, raise long-term capital, making it easier to attract capital flows, reduce pre and post-listing requirement obligations and promote liquidity. On 30th November 2020, the NSE announced Four Companies to be migrated from the ASeM to **the** Growth board. They include Chellarams Plc, Living Trust Mortgage Plc, McNichols Plc, and The Initiates Plc.

Also, in the year under review, the twin combination of the outbreak of the novel coronavirus (COVID-19) and volatility in oil prices caused volatility in the Nigeria bourse and global market. The Nigerian Stock Exchange had no choice but to remain resilient even in the face of the pandemic. The NSE, in response to flattening the infection curve, activated the business continuity plan with Remote Trading during normal hours and days by providing remote trading access for Dealing Member Firms through FIX Protocol and Virtual Private Network (VPN) platforms.

The impact of the macroeconomic challenges from the pandemic was felt in H1 2020. According to the Nigerian Bureau of Statistics (NBS), Nigeria's gross domestic product (GDP) contracted by -6.1% year-on-year in Q2 2020 and by -3.62% in Q3 2020. Crude oil price volatility continued to put pressure on foreign exchange stability which necessitated several exchange rate adjustments by the Central Bank of Nigeria from N307/$1 in March 2020 to N380/$1 in August 2020, indicating a naira devaluation by 23.8%. Similarly, the headline inflation rate has been on the rise, from 11.22% in June 2019 to 12.13% in January 2020 and 14.89% as of November 2020.

The market capitalization of the Nigerian Stock Exchange which represents the value of all companies listed on the exchange lost N1.86trn (-20.65%) in Q1 2020 to close at N11trn from N12.96trn recorded at the end of Q4 2019. In April 2020, the bourse posted a gain of +8.08% at 23,021.01 points, a significant turnaround from -9.11% and -18.75% recorded in February and March respectively during the severity of the Covid-19 infections. The rebound occurred because of the news of recovery in oil prices at the international market, which was enhanced by improved 2019 corporate actions and quarterly earnings of listed companies.

The Nigerian equities market was notably volatile following the Q1 selloffs on the back of the global concerns regarding the virus. The equities market provided a massive opportunity for bargain hunting with many stocks trading at huge discounts and offering higher dividend yields than fixed income. In Q2 2020, the NSEASI grew by +14.92% while the market cap closed at N12.80trn. It then advanced by +9.61% with the market cap at N14.03trn to close the year with +50.09% growth in Q4 2020 and market cap at N21.06trn.

It is evident that the monetary and fiscal policy measures helped mitigate the initial shock of the pandemic. The equities market responded positively to macroeconomic policy changes such as the cut in Monetary Policy Rate (MPR) by 100 basis points from 12.5% to 11.5% by the Central Bank of Nigeria in September 2020. In the same vein, the CBN reduced the minimum interest on Savings deposits from 30 percent of the MPR to 10 percent. Furthermore, to increase credit to the real sectors of the economy, the apex bank sustained its deposit to loan ratio of 65 percent. A contribution of high liquidity due to a decline of alternative investment opportunities in other asset classes such as the negative interest rates on fixed income securities, better-than-expected positive Q3 results by listed companies led to the surge in activity level which supported a strong bullish performance in the local bourse from October till December by domestic retail and institutional investors (*see Table 23*).

Table 23: Factors that Shaped the Equities Market in 2020

FACTORS THAT SHAPED THE EQUITIES MARKET IN 2020

Factor	Effect	Reason
Decreased Foreign Participation	Negative	In the first quarter of 2020, the capital market witnessed increased capital flight as foreign investors divested due to drained confidence in the Nigerian economy. Therefore, there was a decline in foreign participation in the capital market.
Remote Trading During Lockdown	Positive	Following the lockdown announced by the FG, the NSE sustained its remote trading activities by activating a 30-day remote work plan. This led to sustained activity momentum in the stock exchange and an increase in domestic investors on the market.

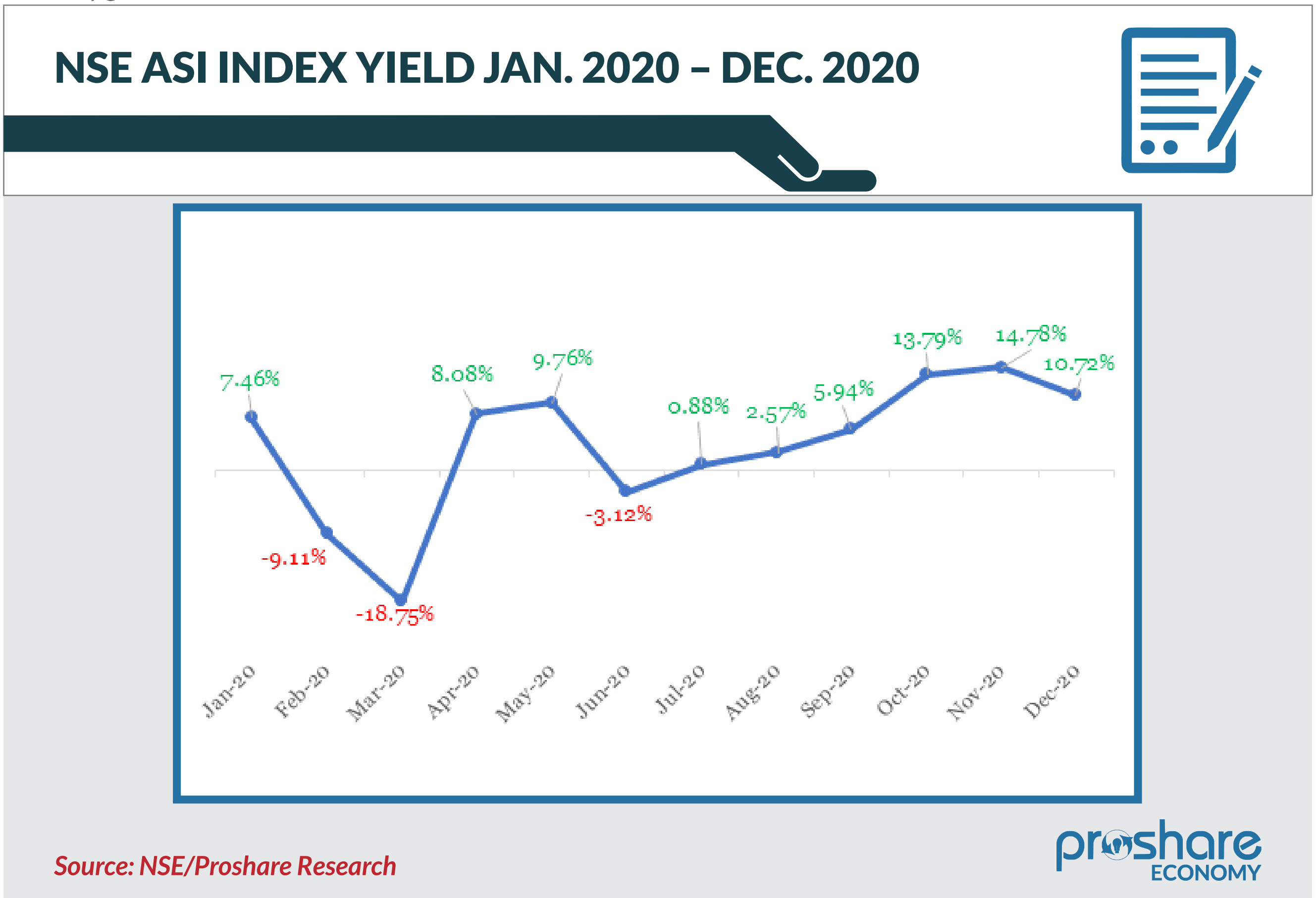
Factor	Effect	Reason
MPC Decision to reduce Interest Rates by 200bps to 11.5%	Positive	The CBN reduced its monetary policy rate by 200bps to 11.5%, to boost lending, discourage savings and drive growth to counter the pandemic's adverse effects. As a result, the low-yield environment in the fixed income market, coupled with the attractive valuations across the equities space, caused domestic fund managers and the retail investors to rally back into the market.
Forex Scarcity	Negative	The decline in crude oil prices due to the pandemic and slowdown in economic growth meant further declines in dollar revenue, increasing the pressure on the CBN and the Federal Government to put tighter measures in place to control the FX liquidity and protect the reserves. This policy discouraged FPIs who remained unable to exit their Naira positions, with some devising creative exit strategies to circumvent the FX bottleneck.

Source: Proshare Research, Ecographics

On Thursday, November 12, 2020, at 12:55 p.m, the bullish performance on the bourse triggered a market-wide circuit breaker when the NSE All-Share Index (NSE ASI) rose beyond the set threshold of 5%, leading to a 30-minute trading halt of all stocks. This was the first time that the circuit breaker had kicked in since its introduction in 2016. The Circuit Breaker protocol which was triggered by the increase of the NSE ASI from 33,268.36 to 34,959.39 was aimed at preventing the market from volatile trading activities.

Month-on-Month yields on the bourse steadily grew in September by +5.94%, October (+13.79%), November (+14.78%), and closed the year with +14.92% as of 31 December 2020. Players in the capital market continued to ride the waves of the market rally with investors gaining, therefore, market capitalization rose to N21.06trn while year to date return stood at +50.03%.

Chart 75: NSE ASI Index Yield Jan. 2020 – Dec. 2020



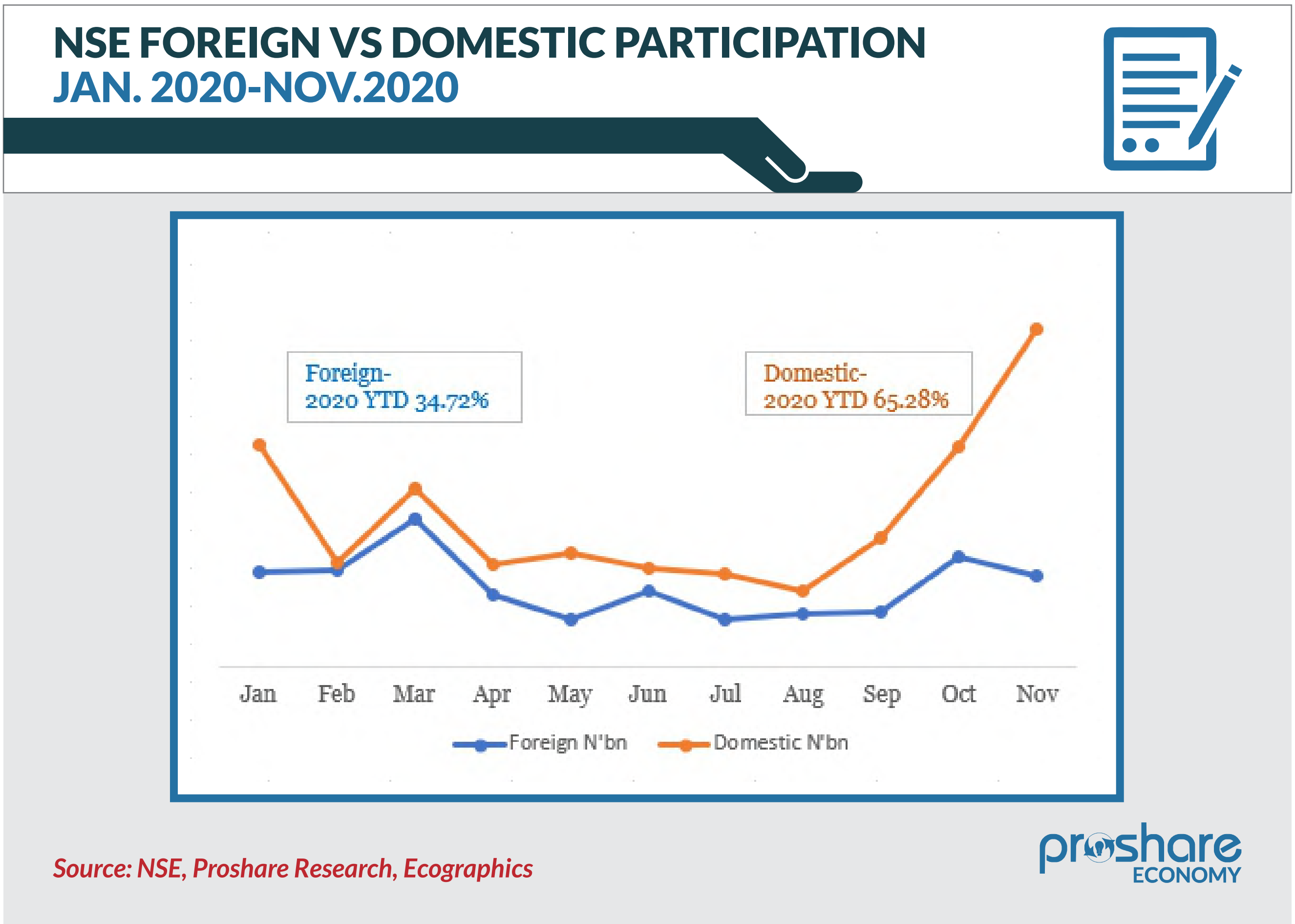
Overview of Domestic and Foreign Portfolio Participation in 2020

There was a decline in foreign participation in the bourse when compared with the previous year while domestic participation increased. As benchmark All Share Index began the surge in July, foreign participation steadily declined while domestic participation began to trend upwards. Year-to-date domestic participation on the bourse grew to 65.28% in 2020 amounting to N1.24trn compared to the performance of N920.70bn in 2019.

On the other hand, foreign participation amounted to N659.28bn, declining to 34.72% in 2020 from 48.85% participation in 2019. Weak foreign participation in the Nigerian market was due to weak macroeconomic fundamentals, fears concerning a possible devaluation, and the outbreak of the COVID-19 virus sent foreign investors on a flight to safety. Going forward, we expect that domestic investors would continue to dominate activities on the domestic bourse as foreign investors remain cautious.

Chart 76: NSE Foreign vs Domestic Participation (Jan. 2020-Nov.2020)

Chart 76: NSE Foreign vs Domestic Participation (Jan. 2020-Nov.2020)



Resilience in The Face of a Pandemic

A total of 57 stocks closed the year higher, with 14 of them recording growths in their share prices by over 70%. The five best-performing stocks for the year were: Sunu Assurances Plc (EQUITYASUR) with share price growing by +400%. The share prices of Neimeth Plc (NEIMETH), FTN Cocoa (FTNCOCOA), Japaul Gold and Ventures Plc (JAPAULOIL), and Airtel Africa Plc (AIRTELAFRI), recorded gains of +259.68%, +230%, +210%, and +184.98% respectively.

Further analysis showed that the low cap stocks from agriculture, ICT and healthcare sectors dominated the best performance for the year 2020. This situation may not continue in 2021 as investors took advantage of the low stock prices and dividend expectation ahead of the full-year earnings season in Q1 2021, despite weak economic fundamentals.

Table 24: **Top 10 Performing stocks in 2020**

TOP 10 PERFORMING STOCKS IN 2020

Symbol	31-Dec-19 (N)	31-Dec-20 (N)	% Chg
SUNUASSUR	0.2	1	400.00%
NEIMETH	0.62	2.23	259.68%
FTNCOCOA	0.2	0.66	230.00%
JAPAULOIL	0.2	0.62	210.00%
AIRTELAFRI	298.9	851.8	184.98%
LIVESTOCK	0.5	1.39	178.00%
BUACEMENT	35	77.35	121.00%
UCAP	2.4	4.71	96.25%
MAYBAKER	1.93	3.51	81.87%
FCMB	1.85	3.33	80.00%

Source: NSE, Proshare Research, Ecographics

Pandemic Crushed Demand

Consumer sentiment was greatly impacted by the COVID-19 pandemic as fast-moving consumer goods faced significant reduction in consumption as well as disruption in supply chains due to the lockdown of major cities in Nigeria.

Furthermore, 66 stocks closed lower than they opened for the year. The five worst-performing stocks for the year were: Arbico Plc (ARBICO) with share price declining by -70.66%. The share prices of Omatek Ventures Plc (OMATEK), NCR Nigeria (NCR), AXA Mansard Insurance Plc (MANSARD), and Afromedia Plc (AFROMEDIA), declined by -60%, -56.44%, -46.97% and, -41.18% respectively. The consumer goods sector was hit by challenges such as foreign exchange devaluation due to a drop in crude oil prices, lockdown of the economy to halt the spread of COVID-19, ENDSARS protest, border closure etc., all of which affected firm's production cost and reduced the purchasing power of consumers.

Table 25: ***Top 10 Worst Performing Stocks in 2020***

TOP 10 WORST PERFORMING STOCKS IN 2020

Symbol	31-Dec-19 (N)	31-Dec-20 (N)	% Chg
ARBICO	3.51	1.03	-70.66%
OMATEK	0.5	0.2	-60.00%
NCR	4.5	1.96	-56.44%
MANSARD	1.98	1.05	-46.97%
AFROMEDIA	0.34	0.2	-41.18%
SEPLAT	657.8	402.3	-38.84%
DEAPCAP	0.4	0.25	-37.50%
INTBREW	9.5	5.95	-37.37%
UNILEVER	22	13.9	-36.82%
GUINNESS	30.05	19	-36.77%

Source: NSE, Proshare Research, Ecographics

Movers and Shakers in 2020

In terms of market capitalization, the tables below illustrate the companies that gained and recorded declines in market cap.

Table 26: ***Advancers and Decliners for 2020***

ADVANCERS AND DECLINERS FOR 2020

Advancers		Decliners	
Symbol	Market CAP Diff	Symbol	Market CAP Diff
AIRTELAFRI	2,077,881,966,561.60	INTBREW	-204,044,272,705.80
DANGCEM	1,753,468,211,974.50	SEPLAT	-150,347,585,335.50

Advancers		Decliners	
Symbol	Market CAP Diff	Symbol	Market CAP Diff
BUACEMENT	1,434,155,394,441.00	ACCESS	-55,095,099,714.10
MTNN	1,321,007,896,945.00	UNILEVER	-46,534,543,877.70
ZENITHBANK	194,658,261,473.20	GUINNESS	-24,203,730,149.95

Source: NSE, Proshare Research, Ecographics

Outlook: From Pandemic to Recovery

For capital markets globally and in Nigeria, 2020 was an intense and volatile year. The Nigerian equities market is gradually recovering from the impact of COVID-19 although there is a high degree of uncertainty on the horizon considering the increasing number of cases recorded daily. Macroeconomic instability continues to fuel investor sentiment on the equities market as it witnessed significant primary market activities within the year, it is also worthy to note that no IPO has been recorded throughout the year. The market at the end of the year broke-out 41,000 basis points, owing to a rally for high cap stocks, which is of interest to many investors, considering the weak economic fundamentals.

The Nigerian capital market is likely to maintain this trend until the end of the full-year earnings reporting season, given that there are limited opportunities for higher returns and yields in other asset classes that can match the dividend yields of some listed companies. The current trading pattern and sentiment in the market offers investors opportunities to position for the short, medium, and long-term for fundamentally sound, and dividend-paying stocks for possible capital appreciation in 2021.

Considering the decline in foreign participation on the bourse to 34.,72% in 2020, and bottlenecks in accessing forex, market performance in H1 2021 will be primarily determined by domestic participation which will be supported by the expected liquidity glut and the low fixed income yield environment. As investors position for full year 2020 dividends in Q1 2021, the market is expected to retain the current buying activity with stocks in the financial services sector to dominate activity levels due to high sensitivity to liquidity in the sector. On the flip side, foreign investors would avoid the market if foreign exchange crisis persist.

Furthermore, the stock market bullish momentum will also be determined by government policies to encourage economic development as sentiment for stocks would be driven by the direction of monetary policy and fiscal policy. Inconsistency in policy decisions could create headwinds for the equities market in 2021. Given the polarity between economic growth and stock market valuations currently, anxiety looms as investors are aware that there may be a bubble in the market especially for stocks in certain sectors that have surged unexpectedly. Any signal of trouble that the current stock market rally will be hard to sustain in the long run may push investors into profit taking resulting in high selloffs leading to a reversal in market trends, as the current rally is not backed by fundamentals.

The year 2020 tested the resilience and adaptability of companies listed on the exchange. Companies sought actions such as capital market-driven initiatives by regulators, government policies that foster growth that will help them rebound to pre-pandemic levels. Companies with strong balance sheets plus stable growth potential can project 2021 earnings to rebound to pre-pandemic levels (*see Illustration 46*).

Illustration 46: 2021 Outlook for the Nigerian Stock Exchange

Tony and Dangote Index

This section aims to examine the performance of Proshare's index which consists of the Dangote index and Tony's index in the year 2020. Tony and Dangote have stocks with large market cap which can suggest the overall sentiment of the market. Tony's index consists of AFRIPRUD, TRANSCORP, UBA, and UBCAP while Dangote's index consists of DANGCEM, DANGSUGAR, and NASCON.

The headwinds of the twin shocks (COVID-19 Pandemic and Drop in Oil Prices) have continued to weigh heavily on the fortunes of the companies within both indexes, although both companies have proven resilient in the face of the challenges with rebound their revenues in Q3 2020. The decline of FPIs/FDIs and reduced access to credit due to tightened global liquidity impacted the financial markets with a trickle-down effect on the Dangote and Tony index.

Dangote Index

The stocks herein are within the manufacturing sector which recorded a second consecutive contraction in growth rate by -1.51% in Q3 2020, and -8.78% in Q2 2020.

The index opened the year on a positive note with a growth of +24.98% in January 2020 following major declines in February, March, and June by -5.94%, -23.92%, and -8.50% respectively. The highest decline in the index during the year was recorded in March. This decline was because of macroeconomic challenges resulting from the pandemic causing supply chain disruptions, lockdown, and restrictions which affected household incomes and led to a reduction in demand for goods and services.

Following the gradual reopening of the economy, the Dangote index closed the year positive with +17.39% as of 22 December 2020. Furthermore, Dangote Cement Plc is a large-cap stock within the index that served as the major factor contributing to the growth or decline of the Dangote Index. Dangote cement delivered very strong Q3 2020 results with a +64% increase in PBT from N165.85bn it posted in Q2 2020 to N271.96bn in Q3 2020. The recovery in demand from a subdued Q2 was driven by the re-starting of construction projects post the COVID-related lockdown and resumption of clinker exports to neighbouring countries. (*see Chart 77*)

***Chart 77:* Dangote Index Yields Jan. 2020 - Dec. 2020**

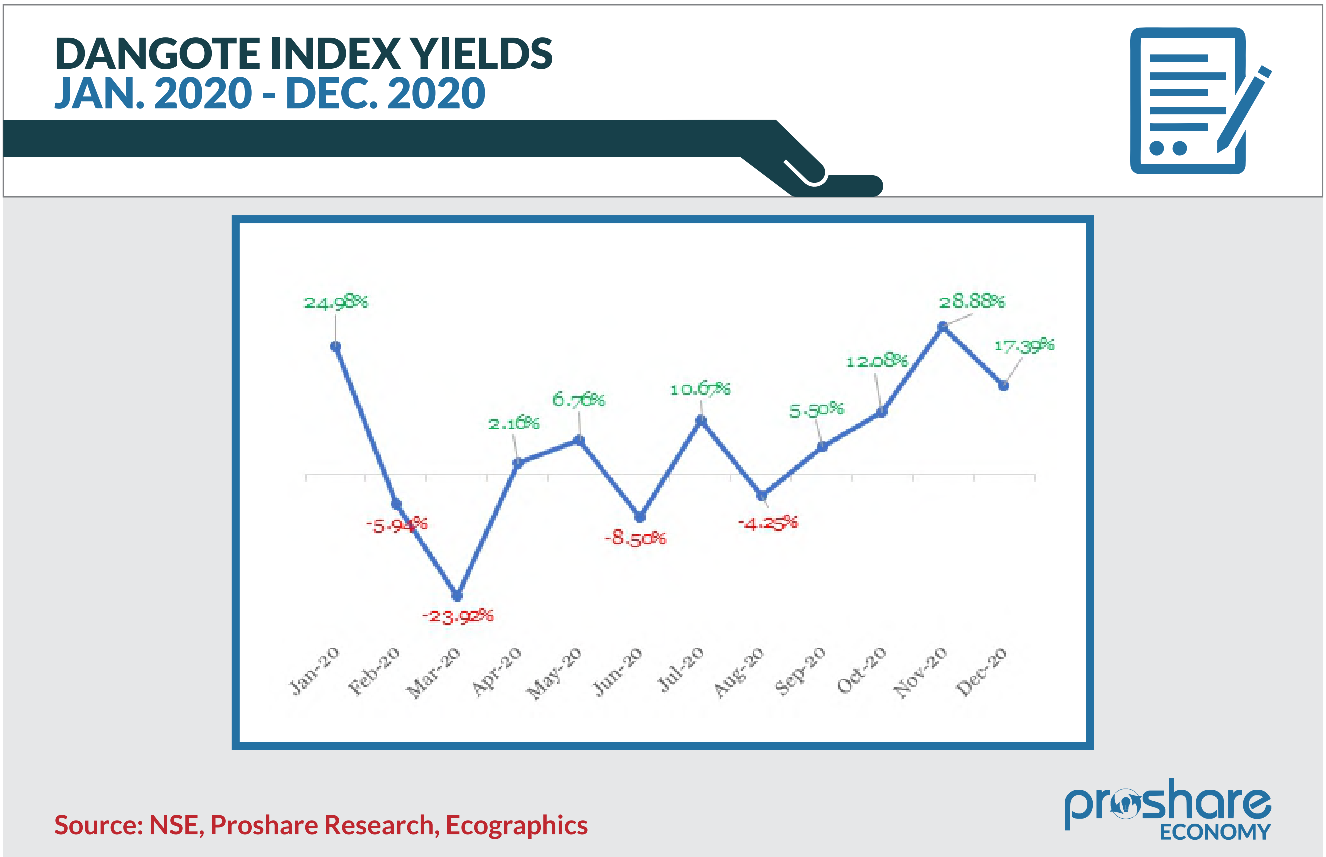
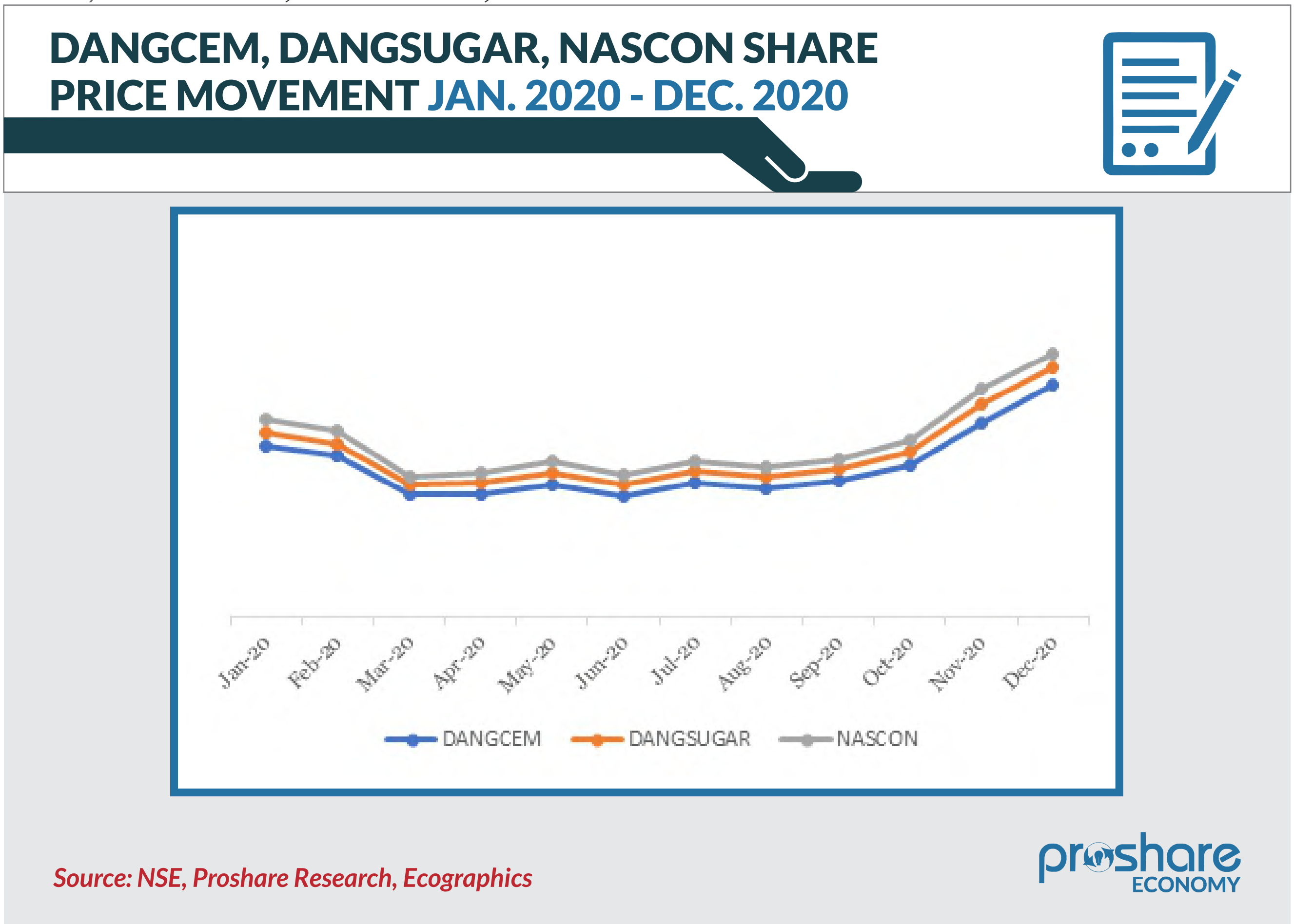


Chart 78: ***DANGCEM, DANGSUGAR, NASCON Share Price movement Jan. 2020 - Dec. 2020***



Source: NSE, Proshare Research, Ecographics

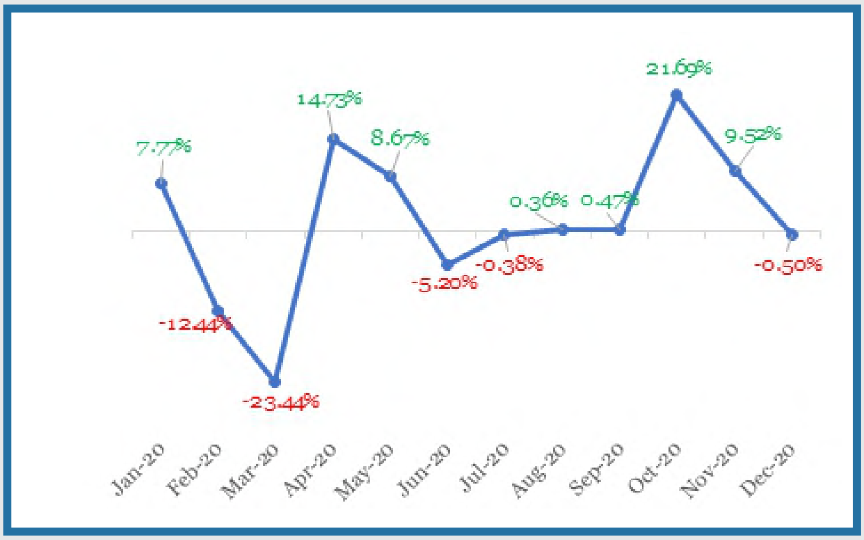
Tony Index

Tony index reported bearish and bullish stock prices at different months in the year 2020. The index recorded its lowest points in March, February, and June with -23.44%, -12.44, and -5.20% respectively. Investors' activity on the index is high, as it is mostly composed of stocks in the financial services sector (UBA, AFRIPRUD, UBCAP), which is very active on the NSE. The highest gains in the index were recorded in October, April, and November with gains of +21.69%, +14.73%, and +9.52% respectively (*see Chart 79*).

Chart 79: Tony Index Yields Jan. 2020 - Dec. 2020

Chart 79: ***Tony Index Yields Jan. 2020 - Dec. 2020***

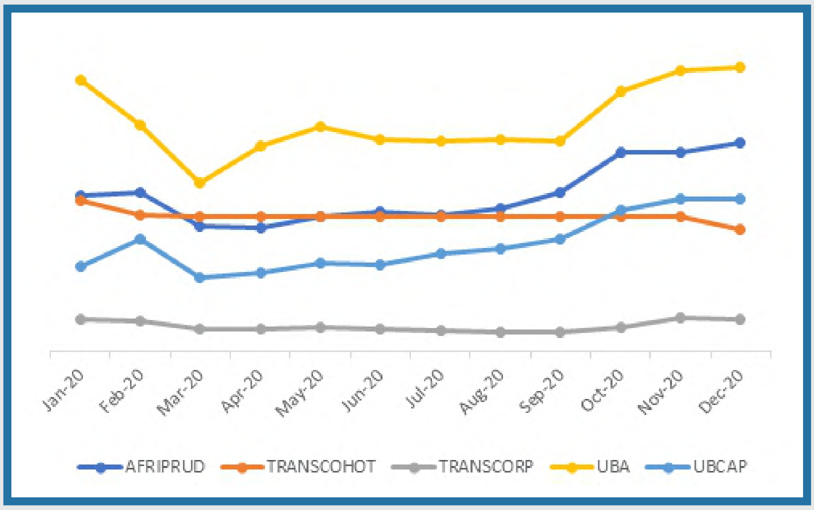
TONY INDEX YIELDS JAN. 2020 - DEC. 2020



Source: NSE, Proshare Research, Ecographics

Chart 80: ***Toni AFRIPRUD, TRANSCOHOT, TRANSCORP, UBA, UBCAP Share Price movement Jan. 2020 - Dec. 2020***

AFRIPRUD, TRANSCOHOT, TRANSCORP, UBA, UBCAP SHARE PRICE MOVEMENT JAN. 2020 - DEC. 2020



Source: NSE, Proshare Research, Ecographics

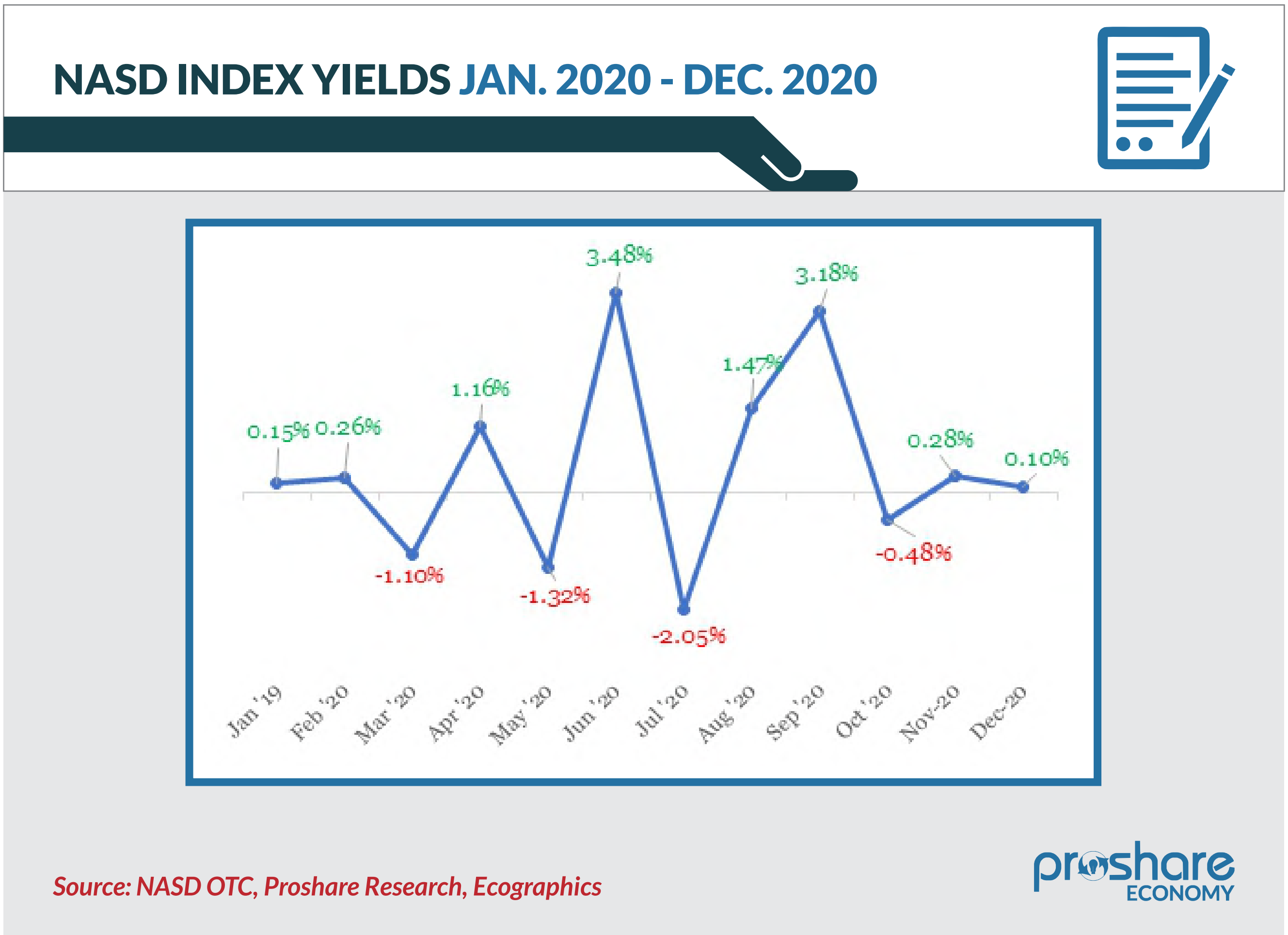
NASD OTC

The NASD Security Index year to date return rose by +5.08% in 2020. Total volume traded year-to-date stood at 7,930,325,502 units in 1498 deals while total value traded stood at N12,688,125,851.08.

NASD OTC recorded its lowest yield of -2.05% in July. Other periods of low yield were recorded in May, February, and October with declines of -1.32%, -1.10%, and -0.48% respectively. The impact of the coronavirus lockdown being lifted was reflected on the market. The highest gains were recorded in June +3.48%, September +3.18%, and August +1.47%. In June 2020, Newrest Asl Nigeria Plc was admitted to the NASD OTC exchange.

Allianz Insurance Plc was delisted from the NASD OTC Securities Exchange on December 23, 2020. Meanwhile in May 2020, the National Insurance Commission ("NAICOM") issued a circular that increased the minimum paid-up capital requirements for all insurance license classes. NAICOM's new rules have prompted players across the industry to pursue various capital raising and restructuring initiatives aimed at bridging their respective capital shortfall. According to NAICOM's circular, Allianz Nigeria Insurance Plc has a material capital shortfall of approximately N11.8 billion. According to NASD, Allianz Nigeria's capital shortfall is unlikely to be bridged only by profit retention given the company's profitability trend leading to shareholders' decision to delist from the exchange.

***Chart 81:* Toni NASD Index Yields Jan. 2020-Dec. 2020**



Advancers for the Year

Four of NASD OTC stocks closed the year with a significant increase in value. Geo-Fluids Plc, which currently holds a market capitalization of N2.93bn closes the year at N0.69 representing a +30.19% increase from the opening price of N0.53.

Niger Delta Exploration and Production Plc, which currently holds a market capitalization of N61.68bn closed the year at N340.0, a +13.05% increase from the opening price of N300.76. Nipco Plc, which holds a market capitalization of N12.76bn closed the year at N68, a +9.68% increase from the opening price of N62.

Central Securities Clearing System Plc which has a market capitalization of N75.25 closed the year at N15.05 representing a +3.79% increase from the opening price of N305.00.

Table 27: ***Advancers for the Year***

ADVANCERS FOR THE YEAR

ADVANCER(S)

Security	Open Price (N)	Close Price (N)	% Change	Volume Traded('000)
SDGEFLUID	0.53	0.69	30.19	4,110,850 (Units)
SDNDEP	300.76	340.000	13.05	12,001,764 (Units)
SDNIPCOPLC	62	68	9.68	3,633,548 (Units)
SDCSCSPLC	14.5	15.05	3.79	213,980,183 (Units)

Source: NASD OTC, Proshare Research, Ecographics

Decliners for the Year

FrieslandCampinaWamco Nigeria Plc which currently has a market capitalization of N126.92bn closes the year at N130 representing a -1.52% decline from the opening price of N132.00.

Table 28: ***Decliners for the Year***

DECLINERS FOR THE YEAR

DECLINER(S) ↓

Security	Open Price (N)	Close Price (N)	% Change	Volume Traded('000)
SDFCWAMCO	132.00	130.00	-1.52	6,722,430 (Units)

Source: NASD OTC, Proshare Research, Ecographics

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Commodities Market

The world economy in the year 2020 experienced a lot of downs and few ups due to the novel coronavirus which broke out at the end of 2019 and spread throughout the world affecting virtually all sectors of the economy including the commodities market.

Asides from equities and fixed income markets, the commodities market is another asset class that investors find appealing and relatively profitable to invest in. The commodities market can be dissected into three sections – energy, metals, and agriculture.

The Nigerian government in an attempt to drive productivity and stay afloat during the pandemic enacted various policies. These policies had varying degrees of impact on the overall economy, equities, fixed income, and the commodity market. Some of the policies that affected the commodities market are the ban on maize importation which led to hike in the price of poultry feeds and an increase in the price of eggs, the closure of the Nigerian border etc (*see Table 29*).

Table 29: Government Polices Enacted in 2020 and Impacts on Nigerian Commodities

Table 29: **Government Polices Enacted in 2020 and Impacts on Nigerian Commodities**

GOVERNMENT POLICIES ENACTED IN 2020 AND IMPACTS ON NIGERIAN COMMODITIES

	Actions taken by FG	Aim	Impact
1	Subsidy removal and deregulation of oil sector	• Creating more jobs. • Freeing up funds for the various tiers of government to develop critical infrastructure in education, health, transport and other sectors.	• Hike in the price of PMS. • Increase in transportation fares. • Discord between oil marketers and federal government on price setting. • Unstable PMS price.
2	Border closure	• To boost local production. • Conservation of foreign reserves. • Combating food smuggling	• Rise in food inflation. • Hike in the price of rice. • Hindrance in operations of FMCGs; deterring free movements of goods across the borders.
3	Ban on importation of maize	• To increase local production. • To stimulate a rapid economic recovery. • To safeguard rural livelihoods. • To increase jobs.	• Hike in price of poultry feeds. • Insolvency of poultry farmers nationwide. • Food insecurity. • Increase in price of eggs. • Hike in price of birds.

Source: Proshare Research, Ecographics

Table 30: **Factors that Affected the Nigerian Commodities Market and their Impacts**

FACTORS THAT AFFECTED THE NIGERIAN COMMODITIES MARKET AND THEIR IMPACTS

	Events	Impact
1	Fall in global oil price	• Depleting foreign reserves. • Reduction in Nigeria's export earnings.
2	Excessive rainfall	• Wiped out 25% of Nigeria's rice harvest which led to a spike in the price of rice. • Hike in price of onions. • 40% of Nigeria's annual cocoa output under threat in the South-West due to infestation of the black pod disease which thrives during the wet season. • Halt in cocoa harvest as farmers grief over the lack of sunshine to dry cocoa pods. • Reduction in export earnings.
3	Insurgency	• Food crisis. • Increase in food prices.

Source: Proshare Research, Ecographics

Energy

Brent Crude

By the end of January, the oil price had fallen as low as $57/bbl from $68/bbl during the first week of January as the coronavirus outbreak started spreading from China to other parts of the world. The spread of the virus had a massive impact on the demand for oil around the world due to large declines in airline, car, shipping, manufacturing, and trucking traffic as there were lockdowns and movement restrictions in many parts of the world. In February and March, oil price dropped by -12.27% and -49.81% respectively (*see Table 31*).

History was made in April as oil futures turned negative which meant that oil producers were paying buyers to take the commodity off their hands over fears that storage capacity could run out. To prop up prices that had collapsed due to the coronavirus pandemic, the Organization of the Petroleum Exporting Countries (OPEC) and Russia, a group known as OPEC+ agreed in April that it would cut supply by 9.7m barrels per day during May-June. This output pact agreed by OPEC and OPEC+ achieved its goal and in May, oil price inched up by +43.12% settling at $41.02/bbl in June from as low as $21/bbl in April. With oil prices steadily rising after the record cuts, OPEC and non-OPEC allies agreed to scale back the cuts to 7.7m barrels per day in August.

In October 2020, brent crude oil **slumped** to its lowest price level since May 2020, as new lockdown measures came into force across Europe and some parts of the United States of America (USA) to fight the second wave of the coronavirus pandemic. OPEC and non-OPEC allies met in December to discuss 2021 oil output policies given the weak global oil demand outlook. On Thursday, December 3rd, 2020, OPEC, and Russia agreed to slightly ease their deep oil output cuts from January by 500,000 barrels per day(bpd). The increase implies OPEC and non-OPEC allies would move to cut production by 7.2mbpd or 7% of global demand from January compared with the 7.7mbpd agreed on in August 2020.

***Table 31:* Brent M-o-M Performance (Jan- Dec 2020)**

BRENT CRUDE OIL PRICE
M-O-M PERFORMANCE (JAN- DEC 2020)

Months	Prices ($/bbl)	% Change(M-o-M)
January	56.62	-17%
Feb	49.67	-12.27%
March	24.93	-49.81%
April	26.44	6.06%
May	37.84	43.12%
June	41.02	8.40%

Months	Prices ($/bbl)	% Change(M-o-M)
July	43.52	6.09%
August	45.81	5.26%
September	41.92	-8.49%
October	37.94	-9.49%
November	48.18	26.99%
December	50.8	3.94%

Source: Bloomberg, Proshare Research, Ecographics

Fiscal and External Breakeven Oil Price

Fiscal Breakeven Oil Price

The majority of Middle-East and North African countries dependent on oil revenues will be adversely affected by the fall in crude price. According to the IMF's projections for 2021, the top five countries (5) under MENAP with the highest fiscal break-even oil price are Iran, Algeria, Libya, Oman, and Bahrain require a fiscal break-even oil price of US$395.3 per barrel, US$135.2 per barrel, US$124.4 per barrel, US$109.5 per barrel and US$83.4 per barrel respectively (*see Table 32*).

Table 32: ***Fiscal Breakeven Oil Price***

FISCAL BREAKEVEN OIL PRICE

Fiscal Breakeven Oil Price	
	Projections(2021)
MENAP Oil Exporters	$/bbl
Qatar	38.1
Iraq	64
Kuwait	65.7
UAE	66.5
Saudi Arabia	67.9
Bahrain	83.4

Fiscal Breakeven Oil Price	
	Projections(2021)
MENAP Oil Exporters	$/bbl
Oman	109.5
Libya	124.4
Algeria	135.2
Iran	395.3

Source: IMF, Proshare Research, Ecographics

External Breakeven Oil Price

According to IMF projections for 2021, the top five countries under MENAP with the highest external breakeven oil prices are Algeria, Libya, Bahrain, Iraq, Oman with an external breakeven oil price of $105.7, $81.5, $74.3, $61.9 and $56.3 per barrel respectively (*see Table 33*).

Table 33: External Break-even Oil Price

EXTERNAL BREAKEVEN OIL PRICE

External Breakeven Oil Price	
	Projections(2021)
MENAP Oil Exporters	$/bbl
Iran	31.4
Qatar	42
Saudi Arabia	50.7
UAE	50.7
Kuwait	53.8
Oman	56.3
Iraq	61.9

External Breakeven Oil Price	
	Projections(2021)
MENAP Oil Exporters	$/bbl
Bahrain	74.3
Libya	81.5
Algeria	105.7

Source: IMF, Proshare Research, Ecographics

Production Cuts Dilemma

With oil prices likely falling during 2021, OPEC and non-OPEC allies will subsequently meet to discuss lifting output as a surging virus smothers the global energy demand recovery. Russia's breakeven oil price sits slightly above $40 per barrel, which is half of Saudi Arabia's. The two heavyweights, alongside OPEC and its allies, will want to be cautious in loosening the cuts too quickly, as there could be a threat of a price setback resulting from oversupply. But if too cautious and prices rise significantly, a rift could arise and U.S. shale oil production could rise again.

Metals

Gold

The bullion has gone through a rollercoaster year. Typically, the bullion thrives in uncertainty. COVID-19 and the tumbling returns on equities and fixed income assets have nudged investors towards the precious metal for a haven. The lowest it recorded was in February at $1585.69/t.oz. By the end of Q1, gold prices had risen by +2.68% while in April, gold prices rose by +4.44% as worries over a surge in fresh COVID-19 cases infections globally dented investor optimism about a swift economic rebound. Investors took positions in gold futures to safeguard their investments. Gold prices steadied and remained bullish in May and June as the prices increased by +1.76% and +2.37% respectively.

In August 2020, gold prices hit a **record high** of over $2000/t.oz during the first week of August. The uptick in metal prices reflects investor's strategic holding of alternative assets to hedge downturns in the value of currencies previously considered to be 'safe-havens' of value. Investors fleeing to gold believe it would provide the necessary stability to their portfolios and insulate their assets from coronavirus-induced global market uncertainty.

In November 2020, gold prices slumped after a positive development regarding the **vaccine** was announced by BioNTech, Pfizer, and Moderna. Furthermore, the strengthening of the US dollar also pressured gold prices (*see Table 34*).

Table 34: ***Gold M-o-M Performance (Jan- Dec 2020)***

GOLD M-O-M PERFORMANCE (JAN- DEC 2020)

Months	Prices($/t.oz)	%Change(M-o-M)
January	1,589.16	5.20%
Feb	1,585.69	-0.22%
March	1,577.18	-0.54%
April	1620.81	2.77%
May	1702.7	5.05%
June	1685.06	-1.04%
July	1775.38	5.36%
August	2035.55	14.65%
September	1933.94	-4.99%
October	1878.81	-2.85%
November	1787.79	-4.84%
December	1860.84	4.09%

Source: Bloomberg, Proshare Research, Ecographics

proshare ECONOMY

Silver as a soft metal showed a stellar performance in August 2020 as demand for the metal surged. The metal **outperformed** gold as a hidden value investment opportunity. Year-to-date growth in the value of silver outstripped growth in the value of gold. Silver recorded a year-to-date change of +44.93%, outshining the yellow metal (*see Table 35*).

Table 35: ***Gold and Silver Year-to-Date Performance***

GOLD AND SILVER YEAR-TO-DATE PERFORMANCE

Commodity	22-Dec-20	31-Dec-19	YTD Chg
Gold ($/t.oz)	1860.84	1517.27	+24.15%
Silver ($/t.oz)	25.1869	17.85	+44.93%

Source: Bloomberg, Proshare Research, Ecographics

proshare ECONOMY

The sizzling run by Silver since August could be attributed to the recovery in industrial operations as silver is used in electronic parts and the production of solar panels.

Another reason for the rise in the value of silver was the depreciation of the US dollar against the currencies of the United States of America's trading partners, rising domestic US inflation, and the collapse in real interest rates, pushing investors towards the bullion.

Table 36: ***Silver M-o-M Performance (Jan 2020- Dec 2020)***

SILVER M-O-M PERFORMANCE (JAN 2020- DEC 2020)

Months	Prices ($/t.oz)	%Change (M-o-M)
January	18.04	1.53%
Feb	16.67	-8%
March	13.97	-16%
April	14.98	7%
May	17.87	19%
June	18.21	2%
July	24.39	34%
August	28.14	15%
September	22.89	-19%
October	23.66	3%
November	23	-5%
December	25.19	12%

Source: Bloomberg, Proshare Research, Ecographics

proshare ECONOMY

Another reason for the increased focus on silver is volatility in the metal market. The silver market was more volatile than the gold market. For investors looking to profit from a sudden increase in prices, silver's additional volatility is advantageous because more volatility means larger spikes in the commodity's price and stronger potential investor returns.

Palladium

Palladium is a metal used in catalytic converters in the automobile industry. In February, the price of palladium grew by +14.37% and in March and April, the price fell drastically by -13.42% and -15.34% respectively. This massive drop was caused by the pandemic as there were lockdowns and movement restrictions which hit the automobile industry hard as we see some top automobile firms laying off their workers as car sales plunged in some countries such as Germany and U.K.

UK car sales plunged by 97% according to the BBC in April. The plunge was the lowest level since 1946. Furthermore, reuters reported a plunge of 51.8% in European new cars during March. These declines reduced the demand for palladium as car production reduced drastically which in turn led to the fall in prices of the metal.

The prices of palladium inched up by +1.12% in May and dropped by -2.87% in June as lockdown and restrictions were lifted and economic activities resumed in some countries. However, in the second quarter, prices stabilized and in November it reached their highest at $2428.17/t.oz since the slump in June (*see Table 37*).

Table 37: Palladium M-o-M Performance (Jan 2020- Dec. 2020)

PALLADIUM M-O-M PERFORMANCE (JAN 2020- DEC 2020)

Months	Prices ($/t.oz)	%Change
January	2287.77	19.93%
Feb	2616.55	14.37%
March	2265.37	-13.42%
April	1917.84	-15.34%
May	1939.39	1.12%
June	1883.64	-2.87%
July	2090.77	11.00%
August	2209.1	5.66%
September	2228.29	0.87%
October	2215.88	-0.56%
November	2428.47	9.59%
December	2316.88	-4.6%

Source: Bloomberg, Proshare Research, Ecographics

Agriculture

Cocoa

In June 2019, Ghana, and Côte d'Ivoire, which together produce about 65% of the world's cocoa but get only about $6bn each year from the $100bn global chocolate industry, joined forces in a bid to exert greater pricing power by agreeing on a price floor of $2,600 per tonne of cocoa produced and a living income differential of $400 per tonne.

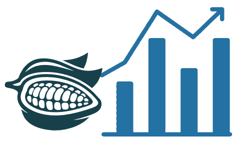
Cocoa prices plunged by -2% and -17.85% in February and March, this was due to overproduction, therefore both Ghana and Ivory Coast were hit hard by this glut. In April and May, the prices picked up and it grew by +7.05% and +0.62% respectively as there was a rainfall below-average in Ivory Coast which caused supply shortage while the black pod disease affected cocoa output in Ghana. There was a decline of -1.76% in July.

To further tackle poverty among farmers, and increase market share in the global chocolate industry, the cartel decided in September 2020, to raise the fixed farm gate price by 21% for the main crop of the 2020/2021 season starting October 1st, 2020.

Prices closed negative in July, but there was a reversal in August and September, as the prices appreciated by +8.3% and +2.4% respectively. Furthermore, prices dipped by -11.31% in October as the price hike in Ghana and Ivory Coast failed to support global cocoa prices. However, prices jumped by +18.2% in November (*see Table 38*).

***Table 38:* Cocoa M-o-M Performance (Jan 2020- Dec 2020)**

COCOA M-O-M PERFORMANCE (JAN 2020- DEC 2020)



Months	Prices($/bu)	%Change(M-o-M)
January	2801	16.47%
Feb	2745	-2.00%
March	2255	-17.85%
April	2414	7.05%
May	2429	0.62%
June	2386	-1.77%
July	2344	-1.76%
August	2539	8.32%
September	2599	2.36%

Months	Prices($/bu)	%Change(M-o-M)
October	2305	-11.31%
November	2724	18.18%
December	2555	-6.2%

Source: Bloomberg, Proshare Research, Ecographics

Wheat

Wheat prices declined by -0.45% and -5.19% in January and February respectively as we saw it pick up the following month by +8.81%. By April it was bullish, as prices dropped by -9.58% due to bumper harvest, and surge in distribution through the Public Distribution System (PDS), and weak global demand. In May, Prices rose by +0.82% due to demand for food staples while in June it dropped by -8.64%.

In July, the price spiked, with an impressive growth of +11.67% because of growing global demand and increased stockpiling. The price dipped marginally in September but inched up in October, November, and December as the demand for Russian wheat increased (*see Table 39*).

Table 39: ***Wheat M-o-M Performance (Jan 2020 – Dec 2020)***

WHEAT M-O-M PERFORMANCE (JAN 2020- DEC 2020)

Months	Prices($/bu)	%Change(M-o-M)
January	553.75	-0.45%
Feb	525	-5.19%
March	571.25	8.81%
April	516.5	-9.58%
May	520.75	0.82%
June	475.75	-8.64%
July	531.25	11.67%
August	548.75	3.29%
September	544.25	-0.82%

Months	Prices($/bu)	%Change(M-o-M)
October	598.5	9.97%
November	606	1.25%
December	617	1.82%

Source: Bloomberg, Proshare Research, Ecographics

Corn

It was a bearish trend for corn from January through April. In February, it dropped by -3.41%, while in March the prices dropped further by -6.04% and its highest plunge came in April, slumping by -7.95% due to the global supply glut which resulted from Bumper Harvest. In May, prices inched up by +2.28% while in June it declined by -2%.

Through the second quarter of the year, Corn prices maintained an upward trend. hitting its peak growth in August 2020 at +9.86%. The bullish trend in Corn was a result of the aggressive buying of U.S. Corn by China as they ramp up their imports of the grains to meet their target under the Phase one trade deal with the United States. (*see Table 40*).

Table 40: ***Corn M-o-M Performance (Jan 2020- Dec 2020)***

CORN M-O-M PERFORMANCE (JAN 2020- DEC 2020)

Months	Prices($/bu)	%Change(M-o-M)
January	381.25	-2.24%
Feb	368.25	-3.41%
March	346	-6.04%
April	318.5	-7.95%
May	325.75	2.28%
June	319.25	-2.00%
July	327	2.43%
August	359.25	9.86%
September	365.25	1.67%

Months	Prices($/bu)	%Change(M-o-M)
October	398.5	9.10%
November	433.75	8.85%
December	443.5	2.25%

Source: Bloomberg, Proshare Research, Ecographics

proshare ECONOMY

Sugar

In February, sugar prices dropped by -2.81%, while in March it fell drastically by -21.83% due to lower demand amid the coronavirus outbreak and the impact of declining oil prices on ethanol. In May, the price ticked up by +1.68% while in June it grew by +9.26% as drought persisted in Thailand. Coronavirus outbreak affected India's sugar production and logistics at Brazil's port in Santos as ships piled up to load sugar.

Sugar prices inched up by +1.59% and +5.45% in August and September respectively following renewed consumer demand. Sugar continued its bullishness in the following months, with an impressive +7.40% growth in October on strong Chinese demand, maintaining its upward trend in November and December (*see Table 41*).

***Table 41:* Sugar M-o-M Performance (Jan- Dec)**

SUGAR M-O-M PERFORMANCE (JAN- DEC)

Months	Prices($/lb)	% Change(M-o-M)
January	14.61	8.71%
Feb	14.2	-2.81%
March	11.1	-21.83%
April	10.73	-3.33%
May	10.91	1.68%
June	11.92	9.26%
July	12.11	1.59%
August	12.77	5.45%

Months	Prices($/lb)	% Change(M-o-M)
September	13.37	4.70%
October	14.36	7.40%
November	14.77	2.86%
December	14.53	-1.62%

Source: Bloomberg, Proshare Research, Ecographics

Illustration 47: ***Commodities Outlook for 2021***

COMMODITIES OUTLOOK FOR 2021

Energy

- Recovery of global oil demand in 2021.
- Coronavirus vaccine to hasten oil demand recovery.
- Oil to trade between $48-$50 barrels per day in the near term.
- Oil expected to reach Pre-COVID levels by Q4 2021.

Metals

- Gold expected to maintain its upward trend as period of uncertainties continues in 2021.
- Silver to continue outshining the yellow metal, as there is a strong demand for the white metal in the industries.
- Gold to trade between $1800-$2000t.oz in the near term.
- Palladium - European nations transition to electric vehicles and enactment of green policies to keep prices low.

Agriculture

Grains

- China's aggressive buying of U.S. grains to buoy grain prices.
- Supply shortages due to dry weather and COVID-19 to also support prices.
- Stockpiling and high global demand to keep prices high.
- Crop friendly weather to increase yields, which in turn will affect prices.
- Higher US grain output to keep prices low.

Sugar

- Drought in Indonesia to keep prices high.
- Sugar prices to rise as drought in Thailand to put pressure on Brazil's sugar.
- Pandemic to affect production in top growers like Brazil and India, as cases surge which is likely to make sugar prices bullish.
- Bumper harvest in Brazil and India to keep prices low.

Cocoa

- Tensions between chocolatiers and cocoa producers to disrupt supply, which will keep prices bullish.
- Bumper harvest in Ivory Coast and Ghana to keep prices low.
- Mutant coronavirus to lead to supply disruptions, buoying prices.
- Black pod disease to affect output, keeping prices high.

Source: Proshare Research, Ecographics

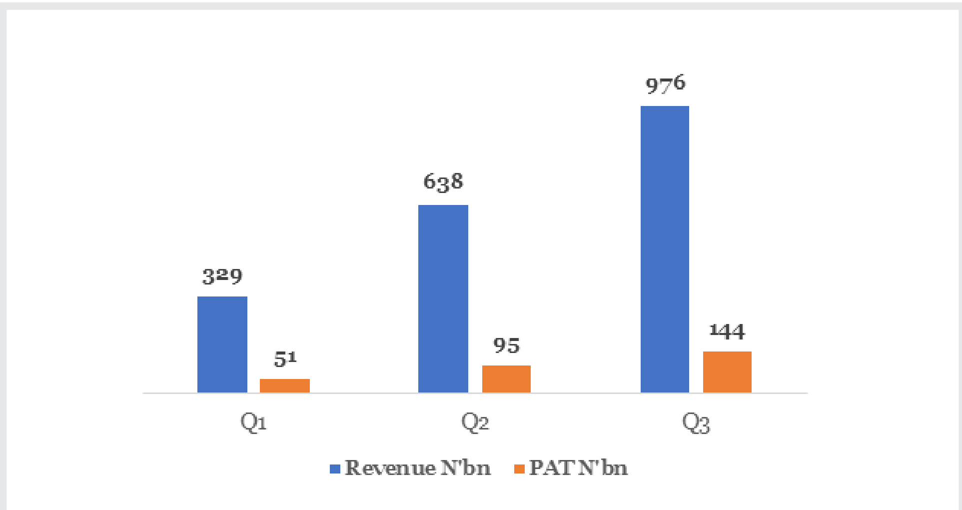
Technology in 2020

The side effect of the COVID-19 pandemic on world economic activities have turned out to be a blessing in disguise for some of the Information Technology (IT) based businesses as there was an increase in their revenue during this period when other businesses had to be closed due to the lockdown imposed by various countries all over the world. While airline companies were either cutting staff salaries or relieving some staffs of their jobs, Amazon's revenue for Q2 2020 grew by +17.8% to $88.91bn from $75.45bn in the preceding quarter.

Also, video conferencing platforms like Zoom, Google Meet, and Skype became popular as people used them to hold meetings, learn from home, or to keep in touch with friends and family. This specifically imparted positively on the price of Zoom's stock on the Nasdaq, as it had a positive outlook given the increase in the number of users of the platform. The total number of participants as of December 2019 was almost 10m, this number was reported at 300m+ by April 2020. As of January 2, 2020, before the coronavirus became full-blown, its price was a mere $68.80, but by April 30, 2020, its price opened at $139.99. Furthermore, it came to an all-time high of $572.50 on October 16, 2020, which is a whopping +732% increase in share price within ten months. Its revenue for Q2 2020 was $5.5m from a mere $0.2m a quarter earlier.

Although the coronavirus pandemic also hit Nigerian businesses, IT firms, telecommunication firms, companies, and banks that were quick to adopt the use of IT in their operations were able to stay afloat and record improvements in their top and bottom line. MTN Nigeria recorded a leapfrog in its revenue in Q2 2020, as the company's revenue increased by +48%. Its revenue increased to N638bn in Q2 2020 from N329bn in Q1 2020. The Q3 result was even more outstanding as MTN posted almost N1tn as revenue (*see Chart 82*).

Chart 82: ***MTN Nigeria Revenue and PAT (N'bn) Q1 2020 – Q3 2020***



Source: MTN Nigeria financial statements

The coronavirus pandemic adversely affected the interest income of banks. But as banks adapted to the "***new normal***" by focusing on their e-channels, they recorded improvements in their non-interest income as bank customers switched to online platforms. Therefore, banks were able to generate revenue through the fees and commission charged on electronic transactions. The top five banks in Nigeria by market capitalization which include First Bank, UBA, GTBank, Access Bank, and Zenith Bank (FUGAZ) recorded improvements in their fees on electronics products as a percentage of their non-interest income in Q3 2020 Q-o-Q. In Q3 2020, FBN, Zenith Bank, and GT Bank recorded a reduction in non-interest income Y-o-Y, while Access Bank, UBA, and GT Bank recorded improvements (*see Table 42*).

*Table 42: **E-Products Revenues of Tier 1 Banks in Nigeria Q1 2019 - Q3 2020***

E-PRODUCTS REVENUES OF TIER 1 BANKS IN NIGERIA Q1 2019 - Q3 2020

	Q1 2019 (N'bn)	Q1 2020 (N'bn)	Q2 2019 (N'bn)	Q2 2020 (N'bn)	Q3 2019 (N'bn)	Q3 2020 (N'bn)
Zenith	8.7	5.4	27.1	8.9	35.3	18.5
GTB	3.2	2.5	7.1	4.8	11	8.2
ACCESS	3.6	11.5	5.5	14	19	38.7
UBA	7.7	8.3	16.8	18	26.7	27.8
FBN	10	11	21.8	21.7	34.4	34.5

Source: Banks financial statements

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The fintech firms in Nigeria have blazed the trail in many stands. Nigeria is now home to over 200 fintech standalone companies, plus there are several fintech solutions offered by banks and mobile network operators as part of their product portfolio. Nigeria's youthful population, increasing smartphone penetration, and a focused regulatory drive to increase financial inclusion and cashless payments, are combining to create the perfect recipe for a thriving sector. To further add spice to the fintech community in Nigeria, the news of the acquisition of Paystack (a Nigerian e-payment start-up) by Stripe for $200m which broke out in October, was met with a lot of excitement.

Illustration 48: Macroeconomic Reactions and Impact on Fintech Landscape

Illustration 48: ***Macroeconomic Reactions and Impact on Fintech Landscape***

MACROECONOMIC REACTIONS AND IMPACT ON FINTECH LANDSCAPE

	What We Are Seeing	Likely Fintech Implication	Strategic/Opportunities
Currency Devaluation	The dollar exchange rate for foreign investors changed.	Reduction in Nigeria fintech funding.	Potential for local investors and corporate players to provide-funding.
Disruption to Employment and Incomes	Forced unpaid leave for formal workers. Loss of jobs.	Reduced sales forecasts. The shift in priority products and services.	Optimised costs to maintain lean operations. Clear priorities from focusing spend only on high ROI investment.
Regulator Stimulus	Fee waiver. Increased in transaction limits.	Increased transaction volumes. Reduction in margins and revenues.	Increase digital ID adoption, leveraging mass distribution of funds/conditional cash transfers (CCTs).
Digital Adoption	Increase use of digital & mobile financial services	Increased pressure on digital infrastructure capacity. Potential increase in competition among fintech players due to increasing digital adoption.	Opportunity to stress test digital capacity for future purposes. Partner with banks that already have a relationship with SMEs and access to distribution channels.

Source: McKinsey & Company

proshare ECONOMY

The year was not just a sweet ride for all Fintechs in Nigeria. Some fintech companies in Nigeria were affected by regulations that hindered the flow of their business and hence kept them out of business e.g., Lagos State Government banned the use of motorcycles on major highways in the state which led to e-hailing companies like O-ride, Max.ng, and Gokada having to close businesses hence a loss of investment for the owners and employments for the riders. This ban came after the government had already welcomed them into the state with open arms assuring them of cordial relationships and a conducive business environment. In the same vein, the state came up with other controversial regulations for e-taxi hailing companies. This was however reviewed, and a compromise was reached (*see Table 43*).

Table 43: ***Lagos State Government's Ride-Hailing Regulations***

LAGOS STATE GOVERNMENT'S RIDE -HAILING REGULATIONS

The Controversial Regulations	Reviewed Regulations
• Companies such as Uber and Bolt have to pay a new license fee that costs N10m ($25,814) for every 1,000 e-hailing taxis. • An annual renewal fee of N5m ($12,907). • All operators must pay the state government a 10% service tax on each ride. • Access to customer's data by the government.	• A N20 road improvement fund to be levied on each trip that all drivers make in a day. • Both the licensing fee and the annual renewal fee were reduced by 20% from N10m to N8m per 1000 cars and from N5m to N4m respectively. • Procurement of comprehensive Insurance to cover drivers and passengers.

Source: Proshare Research, Ecographics

proshare ECONOMY

As if the regulatory impediments by the Lagos State government were not enough, the lockdown which was triggered by the coronavirus made it even tougher. For over 6 weeks, OCar, Taxify, and Uber did not work due to the lockdown. Even after the lockdown was suspended, people were still sceptical about using public transport out of fear of contracting the virus which affected the demand for ride-hailing services and hence led to a decline in their revenue.

Digital Currency

The use of digital currency like cryptocurrencies also received a massive boost as people see them as an investment hedge against inflation and as the "future" for means of payment. Bitcoin (BTC), and some "***altcoin***" witnessed upticks in their prices in 2020. The increase experienced by BTC was attributed to varied reasons ranging from supports from influential people like the co-founder and CEO of Twitter; Jack Dorsey as well as the purchase by institutional investors, and the information by Paypal that it will allow its users to make payments with it on its platform. Furthermore, the rise in bitcoin price could be attributed to the unwillingness of BTC whales to sell their holding of the coins which caused excess demand and led to the phenomenal increase in its price. Towards the end of the year, BTC recorded a YTD increase of +270% (data as of December 28th, 2020) in price. It also rose to an all-time high of $24,000 in December 2020.

Also, in the year, Facebook backed digital currency "Libra" was rebranded "Diem" which is a Latin term for "day" in readiness for its potential 2021 launch of a single, dollar-pegged stablecoin. Also, a major headline that made waves in 2020 was China's ambitious test of a digital version of the yuan. Experiments have begun in four Chinese cities where transactions totalling more than 2bn yuan ($300m) have already taken place.

The best top five cryptocurrencies reviewed in 2020 based on YTD performance were Kusama (KSM)

+4,464.01%, SwissBorg (CHSB) +2,891.65%, Celsius Network (CEL) +2,751.47%, CyberVein (CVT) +2,490.91%, and Band Protocol (BAND) +2,202.61%. On the flip side, the five worst cryptocurrencies reviewed in 2020 based on YTD performance were Revain (REV) -71.99%, Orchid Protocol (OXT) -30.44%, Ontology (ONT) -14.57, USDC -0.53%, and Paxos Standard (PAX) -0.51% (*see Table 44*).

Table 44: The 5 Top Best and Worst-Performing Cryptos YTD

THE TOP 5 BEST AND WORST-PERFORMING CRYPTOS YTD

	5 Top Performers			5 Worst Performers		
S/No	COIN	PRICE $	% CHANGE	COIN	PRICE $	% CHANGE
1	Kusama (KSM)	$53.87	+4,464.01	Revain (REV)	0.01166	-71.99
2	SwissBorg (CHSB)	$0.2835	+2,891.65	Orchid Protocol. (OXT)	0.2441	-30.44
3	Celsius Network (CEL)	$4.54	+2,751.47	Ontology (ONT)	0.4610	-14.57
4	CyberVein (CVT)	$0.1270	+2,490.91	USDC	1.00	-0.53
5	Band Protocol (BAND)	$5.69	+2,202.61	Paxos Standard (PAX)	1.00	-0.51

Note: The figures are as of Monday December, 28, 2020.

Source: www.coinranking.com,

The top five (5) cryptos by market cap in 2020 were Bitcoin (BTC) $27,266.12, Ethereum (ETH) $736.74, Tether USD (USDT) $0.9993, XRP $0.2866, and Litecoin (LTC) $130.63 (*see Table 44*).

Table 45: The 5 top cryptos by market cap performances YTD

THE TOP 5 CRYPTOS BY MARKET CAP PERFORMANCES YTD

S/No	COIN	PRICE $	% CHANGE
1	Bitcoin (BTC)	27,266.12	+269.67
2	Ethereum (ETH)	736.74	+463.55

S/No	COIN	PRICE $	% CHANGE
3	Tether USD (USDT)	0.9993	-0.44
4	XRP	0.2866	+47.24
5	Litecoin (LTC)	130.63	+203.81

Note: The figures are as of Monday December, 28, 2020.

Source: www.coinranking.com

proshare ECONOMY

The Top 10 Emerging Technologies of the Year 2020

According to a special report done by the World Economic Forum, the top 10 emerging technologies below have the potential to spur progress in societies and economies by outperforming established ways of doing things. They are novel yet likely to have a major impact within the next three to five years (*see Table 46*).

Table 46: Top 10 Emerging Technologies of the Year 2020

TOP 10 EMERGING TECHNOLOGIES OF THE YEAR 2020

S/No	Tech	Implications
1	Microneedles for painless injections & Tests	The needles' temporary gentle perforation of the skin enhances the passage of the therapeutic agent.
2	Sun-powered Chemistry	A new approach employs sunlight to convert waste carbon dioxide into these needed chemicals.
3	Virtual Patients	Potential vaccines that weren't likely to work could have been identified early, slashing trial costs and avoiding testing poor vaccine candidates on living volunteers.
4	Spatial Computing	The 'spatial computing' at the heart of this scene is the next step in the ongoing convergence of the physical and digital worlds.
5	Digital Medicine	Apps that diagnose and even treat what ails us.
6	Electric Aviation	Electric propellers increase lift take-off, allowing for smaller wings and overall higher efficiency. Also, it enables air travel to decarbonize.

S/No	Tech	Implications
7	Lower-Carbon Cement	Construction material that combats climate change.
8	Quantum Sensing	High-precision metrology based on the peculiarities of the subatomic realm.
9	Green Hydrogen	Zero-carbon energy to supplement wind and solar.
10	Whole-Genome Synthesis	Next-level cell engineering. The ability to write our own genome will inevitably emerge, enabling doctors to cure many, if not all, genetic diseases.

Source: World Economic Forum, Proshare Research, Ecographics

proshare ECONOMY

It is noteworthy to mention that the future of technology will likely be quantum computing. Quantum computers are machines that use the properties of quantum physics to store data and perform computations. This can be extremely advantageous for certain tasks where they could vastly outperform even our best supercomputers. Classical computers, which include smartphones and laptops, encode information in binary "bits" that can either be 0s or 1s. In a quantum computer, the basic unit of memory is a quantum bit or qubit.

For instance, eight bits is enough for a classical computer to represent any number between 0 and 255. But eight qubits is enough for a quantum computer to represent every number between 0 and 255 at the same time. A few hundred entangled qubits would be enough to represent more numbers than there are atoms in the universe. The race to Quantum Computing superiority between the US and China is noteworthy. President Xi funded a multi-billion-dollar quantum computing mega-project with the expectation of achieving a significant quantum breakthrough by 2030. However, thanks to investments by tech giants – IBM, Google, and Microsoft – the United States has maintained its lead in quantum computing. Google recently achieved quantum supremacy by solving a problem in 200 seconds that would take a classical computer 10,000 years to solve.

Technology and the New Normal

The COVID-19 pandemic has given prominence to the technology sector as technology firms recorded a remarkable increase in their profit in 2020. Companies like Zoom, Netflix, Amazon, Facebook were major gainers despite the ravishing effect of the coronavirus on other businesses.

Some analysts have predicted that there might be a reversal in the profit trends of some companies that have benefited from the pandemic. For example, it is predicted that when countries inoculate their citizens and fewer people work from home, there will be lower demand for the use of video conferencing applications like Zoom, Google meet, etc. On the other hand, a company like Amazon would likely record a continuous rise in profit as its services rendered remain relevant regardless of the presence or absence of a pandemic.

Technology is the future. Therefore, companies, countries, and individuals who are quick to adopt technology to operations and governance are likely going to remain relevant in the future.

Tech Firms

There are fears that the surge in revenue experienced by tech firms because of the coronavirus pandemic lockdown won't be sustained in 2021, but the 2nd wave of the virus seems to suggest the opposite. Major European countries are on lockdown while some states in Nigeria have threatened to lockdown their economies if the numbers of infections continue to rise and citizens do not adhere to the protocols put in place to curb the spread. Furthermore, some company's decision to retain the work from home principle seems to suggest that some tech companies in Nigeria will remain profitable as video conferencing app like Zoom, Skype, and Google Meet and telecommunication companies like MTN, Airtel, Glo and 9moile would record an increase in data usage. This suggests that there might be a repeat of 2020, where some employees would need to work from home, official meetings will be held online, and webinars would continue to be the order of the day. Also, it implies that internet data would be needed for official and personal reasons. E-commerce companies, therefore, are likely going to remain profitable, as gain in online sales prominence will likely be retained. Therefore, 2021 promises to be a good year for the tech firms (GSM service providers, fintech companies, e-commerce businesses, etc)

Fintech companies, however, should quest for opportunities that exist within the education and health sector to address societal challenges such as student financing, digital learning, and affordable health insurance. Also, fintech companies can spread their tentacles by coming up with products to cater to the unbanked as most of their customers seem to be banked. This will drive financial inclusion significantly in Nigeria.

Going forward, it is expected that regulators do their due diligence while formulating policies to avoid the policy summersault like that which was experienced in Lagos State last year where the investors in the ride-hailing business were welcomed with open hands and within a short time, a pronouncement was made which capitulated their businesses. Inconsistency in government policy is a disincentive for the inflow of FDI, as investors tend to flock to economies where there is consistency in government policies.

Banks

With an increase in the use of electronic channels (USSD, mobile and online Banking, ATMs), by Bank's customers, it is expected that the share of e-products revenues as a percentage of non-interest income (NII) would continue its upward momentum in 2021. The likely increase would be attributed to the maintenance of social distancing and other COVID-19 protocols in the bank to halt the spread of the virus. Thus, it is expected that customers would find it more convenient to access alternative banking channels provided by their respective banking institutions. On the flip side, if Nigeria's economic woes worsen in 2021, Nigeria banks might be adversely affected and hence they might need to either restructure their loans to avoid an increase in their non-performing loans.

Digital Currency

It is expected that the unprecedented increase in the prices of some cryptos last year will continue this year as many people now see them as a store of value or investment. It is forecasted by some analysts that

Bitcoin (BTC) could get to $100,000 by the end of 2021. Their forecast is hinged on the persistence of low-interest rates and the rise in BTC buyers. However, it should be noted that the cryptocurrency market is very volatile, therefore investors should always diversify their investment portfolio. Furthermore, investment in cryptos could be used as a hedge against naira devaluation.

Quantum Computing

Quantum computing could spur the development of breakthroughs in science, medications to save lives, machine learning methods to diagnose illnesses faster, materials to make more efficient devices and structures, financial strategies to live well in retirement, and algorithms to quickly direct resources such as ambulances. The development of quantum computing is slow as of now as commercial use is not expected until decades from now. However, with the huge investment by the US and China, this could be sooner than expected. Business organizations like banks, pharmaceutical companies, business consulting/advisory firms, and financial analysts are therefore expected to acquaint themselves with this next big thing in the technology world so as not to be left behind.

Adapting Technology to Cope with Uncertainty

A new year comes with new aspirations and plans by individuals and corporates organizations alike. It is therefore expected that businesses in Nigeria adapt the use of technology to their operations as there are still uncertainties as well as opportunities that the new year will present.

Conclusion - Understanding 2021's Mega Trends

Conclusion - Understanding 2021's Mega Trends

"An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today. " - ***Evan Esar***

2021 will be a crucial year for a variety of reasons; first, most economies have hopes of shaking off a COVID-19-induced recession that has left global supply chains in tatters and workers in different stages of despair as factories and companies close and consumer demand falls off. Second, uncertainty about the direction of oil prices over the year places the fiscal stability of oil-dependent countries in jeopardy. Countries like Nigeria, Algeria, and Angola in Africa could find themselves in dire budgetary constraints if the price per barrel of crude oil slumps below US$40 per barrel during the year. Nigeria's fiscal breakeven oil price is roughly US$136 per barrel.

The third factor that would shape the course of events in 2021 would be the COVID-19 pandemic and the spread of its new strains. The new strains of COVID-19 appear to be nudging economies into a reversal of their opening and a new series of managed lockdowns across Europe and the United States of America (USA). This consequence could be a reduction in fossil fuel consumption and a downturn in oil prices in Q2 and Q3 depending on the pace of the distribution of COVID-19 vaccines and the effectiveness of the vaccines in treating the emerging strains of the virus. Further country-by-country lockdowns in Q1 and Q2 of 2021 could prevent a global economic recovery and stretch recession blues much longer than was earlier expected with the accelerated production of COVID-19 fighting vaccines.

The new digital work culture accelerated by the global health pandemic may lead to permanent changes in the way people work, live, and even love. The prospective trends appear to be around the following:

Global Dynamics - *A World on Ice*

The world could become quickly unstuck in 2021 depending on how countries respond to the way COVID-19 influences their fiscal revenues and disrupts their ability to keep their factories humming. The expansion in global economies relies on businesses getting back on their feet but this would rest heavily on these economies not being shut down during the year. This outcome could be difficult to guarantee as most economies still live under the shadow of the virus and its many twists.

A rise in the virus spread would assure global lockdowns, manufacturing pullbacks, lower purchasing managers indices (PMIs), and lower global oil prices. For Nigeria, this would mean lower fiscal revenues, higher domestic tax rates, higher unemployment, and a ride in domestic food and headline inflate rates.

If the COVID-19 pandemic spread is contained and the new vaccines curb growth and facilitate recovery, economies will open, and factories will increase their raw material demand as supply chains reengage in pre-pandemic cycles and workers get sent back to their jobs. However, the question needs to be asked, how likely is this outcome?

Nobody can say for now how successful a vaccine would be in containing the spread of the virus. There are different expectations based more on hope than science. If the vaccine works well, then economies will revert to pre-COVID-19 outputs, incomes, and job rates within eighteen months. Nevertheless, this is conjecture rather than fact. A lot will depend on the vaccine's efficacy and the speed with which it is circulated and used. So far, judging from the distribution of the vaccine in the USA and Europe, enthusiasm appears mooted.

If the vaccine distribution fails to work quickly and effectively, then the world would have to skate on thin ice and hope that by some divine intervention or providence, the disease would spend itself out regardless of the lack of global viral protection. This outcome would be the least desirable and the least acceptable.

Assuming the COVID-19 bug is squashed the world would need time to mend as supply chains get back in gear and businesses wrench up their output and try to shake off the previous year's blues.

Fiscal Sustainability - *Making Money, Clearing Debt*

In 2021 most oil-producing countries would be hoping for a rise in revenues as the COVID-19 pandemic disappears, but for countries like Nigeria that export crude oil but import refined products the outlook is mixed. Even if COVID-19 winds blow past, and global production activities look up, Nigeria may not see much relief from its stronger oil income as a rise in dollar revenues would be accompanied by a rise in the dollar costs of refined oil imports.

The rise in revenue may, nevertheless, improve the countries debt servicing ability and support higher capital expenditure. The two events would revitalize the economy and bring about stronger GDP growth in 2021.

Uncertain FX Environment - Riding A Carousel

Nigeria's multiple exchange rate will subsist in 2021 with the CBN committed to managing the exchange rate within a band of between N470/US$ and N510/US$ at the import and export (I&E) window. The price of crude oil in the international markets and the management of the coronavirus pandemic will have a say in the shape of the foreign exchange market in the year as manufacturers decide on how much to commit to new inventories and recalibrate production volumes. Early distribution of the COVID-19 vaccine would improve the manufacturer's outlook and likely increase the demand for FX, but a slow distribution of the vaccine will slow down domestic and possibly international consumption resulting in lower input demands and lower pressure on the FX market. The likelier outcome for Nigeria would be that vaccine distribution would be slow, dragging into Q3 and Q4 for coverage of between 10% and 20% of the population.

Stringent Fiscal and Monetary Policy Posture - Navigating A Trilemma

The unspoken rule between the governing and the governed in Nigeria is canceled. Since independence Nigerian governments have refused to tax citizens commensurate with the demands of fiscal prudence while the citizens have refused to insist on fiscal accountability from the managers of the nation’s fiscal resources, especially oil revenues. This unspoken oath of complicity has been broken. The fall in international oil prices and a sustained rise in fiscal spending has forced the central fiscal authorities to contemplate a widening of the tax band and the raising of local taxes. This has meant that domestic tax revenues will increase but citizen's oversight over fiscal spending will also be more aggressive. A recent example is a legal action taken by the socio-economic rights and accountability project (SERAP) to compel the federal government to explain how it spent N729bn on 24.3m people. The opaqueness of fiscal operations will increasingly come into question in 2021 as citizens who will have to pay more taxes will insist on knowing how those tax naira are used.

As the fiscal authorities increase taxes the monetary authority will be caught in a quandary, to raise interest rates to curb inflation or to allow interest rates fall to stimulate growth? The monetary authority will be damned if it raises rates and it will be damned if it does not. The outlook for the CBN in 2021 is unpleasant. The country’s GDP by Proshare estimation will grow to be roughly +1.3% in 2021 but this would be well behind the population growth rate of +2.6%. The implications of mild GDP growth and a speedier population growth rate is a fall in income per person and a decline in individual spending and private consumption.

Rising taxes and falling real incomes will deliver a double whammy on consumers in 2021, leaving them much worse of in the year than they were in 2020. The policy options for the federal authorities are limited as they have maxed out on monetary policy options and are in a bind over the extent to which taxes can be increased in a recessionary or modestly growing economy. Will CBN’s heterodoxy help in 2021? Time will tell (see Illustration 49).

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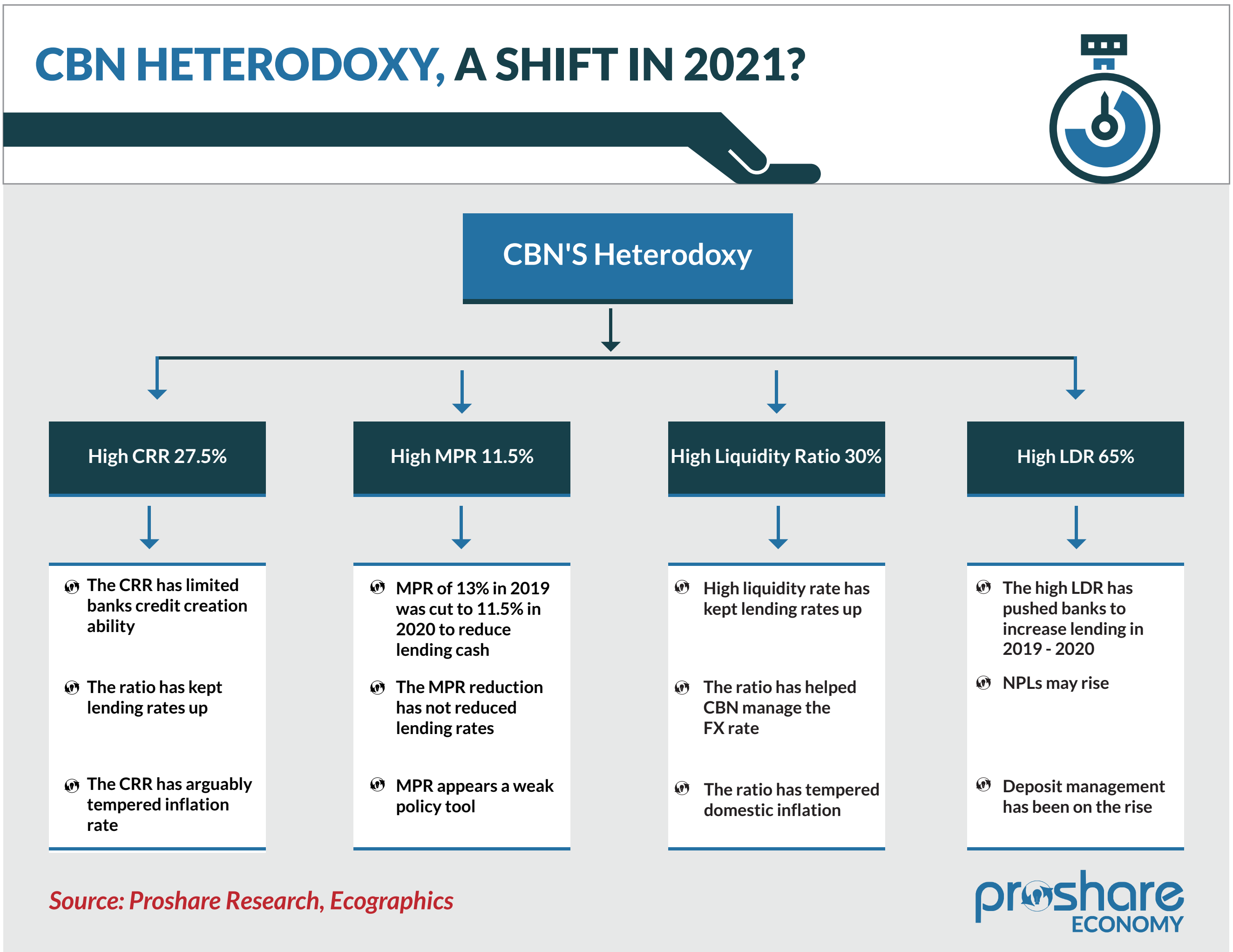
Illustration 49:

Illustration 49: ***CBN Heterodoxy, A Shift in 2021?***



Constrained productivity - *Fighting to Make Work Pay*

A key buzzword in 2021 will be productivity. The absence of productivity is partly at the heart of the country's economic woes. Nigeria is a nation that has rested on oil revenue without bothering to develop its industrial and technological base for over six decades of independence. The gains that were made in the early and late 1960s have been dissipated. The output per head of the country at US$ is among the lowest in the world and suggests a country locked in a dependency trap. As citizens suffer from an entitlement bias the fiscal authorities suffer from oil revenue lactation bias, indeed, like babies clinging to their mother's breasts, the federal government grips revenues from the oil sector as if its life depends on it. What has been called the 'feeding bottle economy' has severed the cord between productivity and expected income, hence smashing the time-worn rational assumptions of economists that pay is the reward for productive effort. Given the mind-numbing earnings of politicians and the difficulty to explain the work ethic they exhibit, work and wages do not come into logical alignment. The same disparity is seen in the private sector where executive salaries and the pay-packet of shopfloor workers continue to move in opposite directions with C-suite executive's remuneration soaring and staff incomes either remain flat or grow at a significantly slower pace than their bosses. In Proshare's CEO Remuneration report 2020 it was noted on page 97 that, "There has been an uptick in public concern over the nexus between executive and productivity, analysts have found it increasingly difficult to pair C-suite bonuses with executive value addition. Behavioural economists contend that paying CEOs and other corporate executives' large bonuses to increase productivity may not necessarily bring the bacon home, as the link between bonuses and white-collar productivity is at best tenuous".

However, beyond pay and pain analysts note that expansion of money supply should bring down interest rates in 2021 and spur output as intervention spending in 2020 begins to influence manufacturing and commercial sector output. A few problems, nevertheless, exist. Nigeria suffers from high import dependency, low domestic manufacturing, low agricultural efficiency, and high economic rent imposed by non-state actors distorting the workings of the local economy, hence creating inefficiencies and ineffectiveness.

Economies of scale are often impossible to achieve as manufacturers are held back by the high cost of local financing, supply-side disruptions, and the practices of state and non-state actors that tend to increase unofficial taxes and logistic costs.

Accelerated Credit Penetration - *Getting Loans to the Lonely*

A major factor in the prospective economic rebound in 2021 would be the expansion of credit to the domestic economy. The problem is that most credit is concentrated in a narrow number of companies and individuals, thereby keeping most MSMEs outside the formal credit loop. This is changing with many fintech companies taking up the role of providing credit through digital platforms. The problem here is that identity confirmation although easier with customers now having unique bank verification numbers (BVNs), loan default rates remain high as consumer and retail credit require a long history of credit assessment and a better credit default algorithm. The identification problem may be a strong foot in the door to better consumer and SME lending, but credit appraisal and credit recovery processes are still weak and need to be tightened.

Indeed big corporates and high net worth individuals in Nigeria show a poor attitude towards credit repayment. It is little wonder that only 350 people and institutions are responsible for over N3.6trn of the Asset Management Company of Nigeria's (AMCON's) delinquent loan assets outstanding as of 2020.

Companies such as LAPO and ACCION microfinance banks have had a less terrible time with loans with recovery rates above 95% of their loan assets outstanding. The fintech companies will need to find ways of leveraging MFB-style lending practices to reduce deterioration of their balance sheets and obliteration of their profit and loss accounts.

Technology will serve as a loan asset accelerant, but this can morph into a combustible situation if the framework around digital lending is not strengthened and made more dependent on big data and machine learning.

Cautious Private Sector Investment Activity - *Marching in Slow Motion*

Investors will return to the Nigerian market in 2021, but how much will flow into the economy will depend on how the federal government handles pertinent issues such as multiple exchange rates, excessive fiscal borrowing from the CBN, local security, taxes FX repatriation, and local money market rates.

From US$1.46bn in Q3 2020, Proshare expects capital importation to rise to US$2.4bn in 2021. The rise in capital importation will depend heavily on how well the government handles the COVID-19 vaccination programme and the combination of domestic fiscal and monetary policies it adopts.

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Emerging Digital Economy - *Here Come the Algorithms*

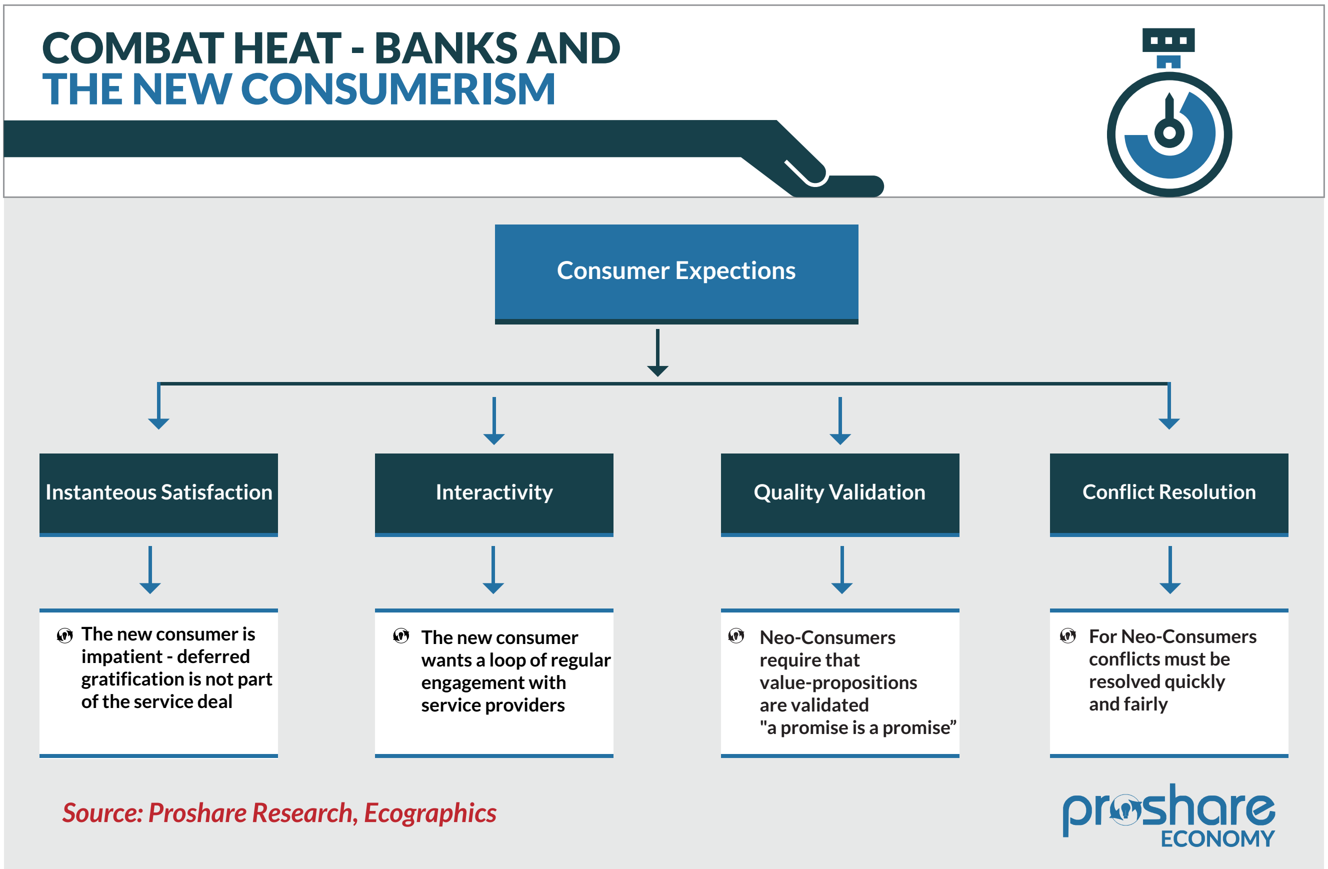
The digital economy was something of sci-fi fiction but not anymore. Companies that do not ride the digital rodeo will bite the dust. The digital economy redefines social and business relationships and accelerated during the COVID-19 pandemic. With person-to-person contact becoming an inconvenient necessity rather than a social norm the digital universe has mutated. Businesses now spend more time sending digital messages between themselves, commercial retail activities are run on business-to-customer (B2C) platforms and businesses are getting comfortable with business-to-business (B2B) interfaces. Even government services are being increasingly processed on dedicated websites with government-to-citizen (G2C) interfaces growing.

With tremendous quantities of data on citizens available to governments at different levels it only stands to reason that governments should be the largest patrons of big data, machine learning, and data mining. The reduction in the human interface in conducting government business would reduce revenue leakages, cut down processing delays, remove data error and limit corruption.

With the changing population demography with digital natives dominating the citizenry, the shift to a digital economy is a natural and inevitable progression. Both Gen X and Gen Y operate on a plane different from an earlier generation, they are more causes motivated, irreverent, impatient, and technically adept. This means that the slow human interfaces of the past cannot simply meet the cut, systems must become more bespoke, customer-centric and service quality-driven, and delivery time-sensitive.

The new generation is wired with 'hustle' as a part of its DNA meaning that the transition from activity sets must be seamless and efficient. Producers of goods and services that are unaware of the sea change in their customer base will be caught unawares with their trousers hanging around their ankles as faster, and more prepared competitors surf the wave of a new consumerism, pre-empting demand and exceeding expectations. Banks seem to be getting the message (see Illustration 50)

Illustration 50: ***Banks and the New Consumerism***



Socio-political Threats - *The Search for Balance*

As technology works its wonders as changes the way people interact with the world, it hides other less remarkable and comfortable developments. The increasing tension among Nigeria's ethnic nationalities creates a sense of instability that could discourage capital importation (average of US$2.3bn in 2020) and diaspora remittances (average of US$22bn annually in the last five years).

The problem cannot be resolved by the traditional approach of papering over the fault lines and pretending that the concept of 'indivisibility' is a creed written on a stone tablet. The socio-political challenge reflects a sense of insecurity, inequity, and imbalance. The political superstructure creates a tripod in which the so-called ethnic groups contest for political dominance in which the winner takes all. The winner takes all approach to governance serves as an accelerant to forces pulling the country apart. If the country is to achieve a political framework that promotes growth and development, there must be a formula that brings about a smarter balance.

The adopted American system of administration does not align with the details of the Nigerian constitution which is unitary rather than federal. The unitary nature of the constitution is reflected in the long exclusive list and the shortlist of concurrent items involving subnational governments. If Nigeria is to achieve sustainable growth within a stable political framework, this must change. Politicians from both sides of the aisle must be prepared to amend the constitution to devolve power to sub-nationals whether as states or as regions. The devolution must be both political and fiscal.

The assumption of peace as a natural state of man is wrong, peace is forged from force or compromise. Peace forged by force bears the seeds of its destruction as the continued internal suppression will give rise to movements that will give birth to insurrection. For people to want to live together in peace uncompelled by the overbearing authority of a central government is the hallmark of nationhood. It is the recognition of this that has doused the tension of Northern Island and Scotland in the United Kingdom, it is the lack of understanding of this that has sparked the desire for the independence of Catalonia from Spain.

With resources becoming scarcer and a younger generation of Nigerians becoming increasingly aspirational, the politicians in Nigeria will in 2021 need to consider major constitutional reviews. The conflicts between farmers and cattle herders are ones that cannot be resolved outside an equitable political arrangement that balances the interest of both parties. Everybody's rights stop where the other individual's nose begins, arguments about traditional routes for grazing is unacceptable within modern realities. Efficiency, effectiveness, and productivity require that meat tending, and production be done in ways that are consistent with international best practices. Nobody puts a Volkswagen Beetle engine into a Maserati and competes for speed. Nigeria is in a race with time and cannot afford the avoidable distractions of ethnic conflicts and political grandstanding.

Agriculture must equally be upgraded with farmers obtaining a certificate of occupancy (C of O) for their farms with appropriately registered titles, thereby eliminating claims of farmlands not belonging to anyone. Resting on tradition as a basis for ownership of farmland cannot be considered reasonable in a modern economy running to play catchup.

Greater fiscal autonomy of the state entities within Nigeria would douse socioeconomic and political tension amongst the nationalities and promote stability and peace which in turn would facilitate larger investments from domestic and foreign investors. With sub-nationals having more control of resources the competition amongst the governments would ensure higher standards of living, improved resource use, and better political choices by electorates based on competence rather than the hijack of offices by political buccaneers and freeloaders.

The contest for the centre should be a battle for influencing national policy in the interest of every ethnic nationality. At the subnational level citizens press for governance that meets their expectations of a better life and superior livelihoods. At the level of security, it should be localized. This is the best practice for countries with diverse ethnic nationalities. The localization of security largely removes the problem of ethnic bias and allows the security agency to build networks of unofficial intelligence. The alleged use of the army to enforce the will of a particular section of the country on another section cannot bode well for ethnic relationships.

In 2021 politicians must make peace with sensible conduct. They must be prepared to break the mould of past biases and rework the Nigerian constitution in the overall interest of a country struggling for identity, peace, and purpose.

Consumer Pressure Points - *Beyond Politics*

Outside the murky realms of politics and governance, people continue to live their lives with expectations, wants, and needs, this is captured in the emerging consumer pressure points.

The fact that the demography of the country has a high number of fairly young people means a shift in the consumer pressure points. The kinds of goods and services required, and their quality would be meaningly different from a few decades ago. The new consumer is more demanding, less patient, and prefers to be able to serve him or herself. The new consumer is, therefore, less dependent on third-person support and more confident in carrying out the job personally.

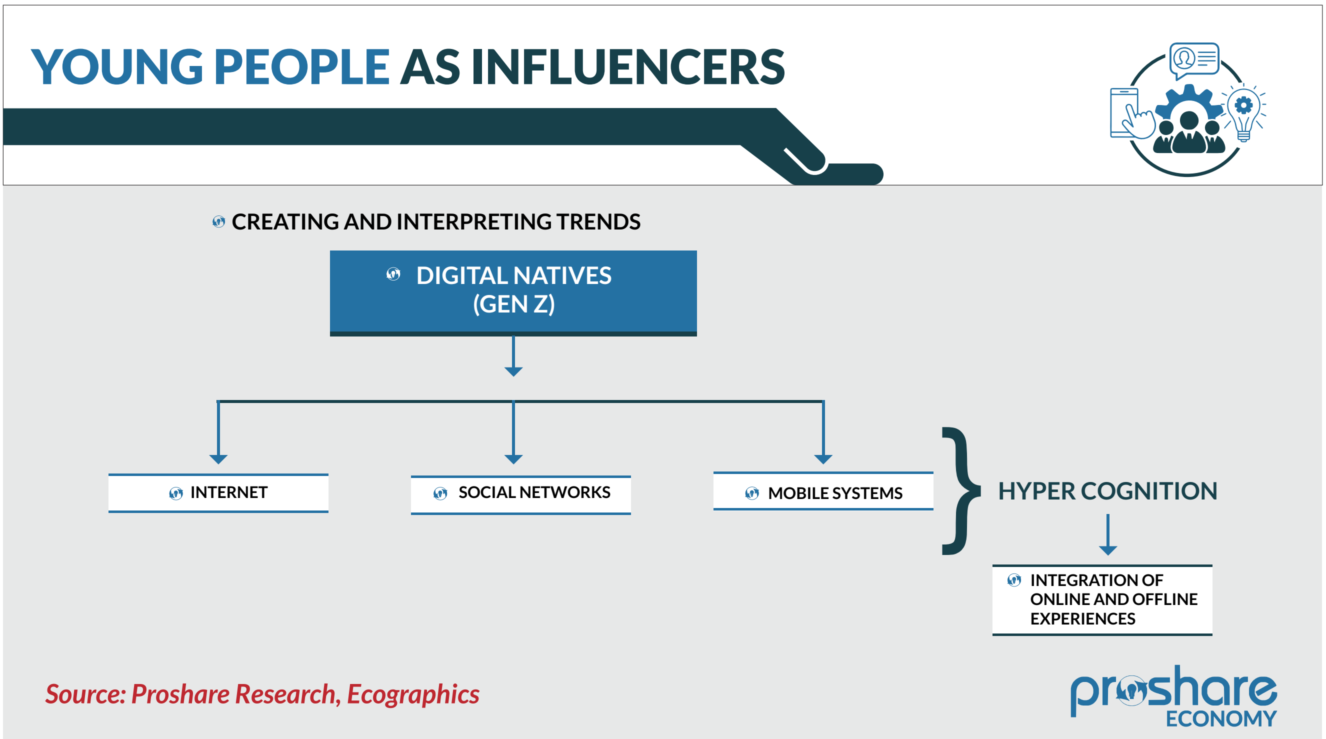
Consumers in 2021 will want to see goods that can be made or delivered on-demand (a boon to online shopping malls and food suppliers as orders become tuned to online demand cycles which can be configured into personalized algorithms that pre-empt consumer needs).

With banking services, books, learning, and entertainment increasingly moving online the new consumer is a digital beast, living from a handheld device or a laptop. The younger Nigerian in 2021 can dissociate from constraining personal contact and run successful businesses with the tap of digital buttons. The Lagos state government is showing the way in feeding into this new social dynamic by laying over 3,000 kilometres of fibre optic cables around the state to ensure a faster and stable internet connection across the state.

More governments and corporations will need to climb the digital loop to provide services and goods more efficiently and effectively by building strong B2C and G2C relationships that enhance consumers' interfaces and experiences (UI/UX). Being comfortable with the past gives warm feelings but will not add to the bottom line.

Most young people are becoming masters and mistresses of the side hustle, and therefore, require platforms that allow them to conduct their activities with minimal fuss, this would mean that service providers and sellers of commodities will have to emphasize speed, quality, and interactivity (see Illustration 51)

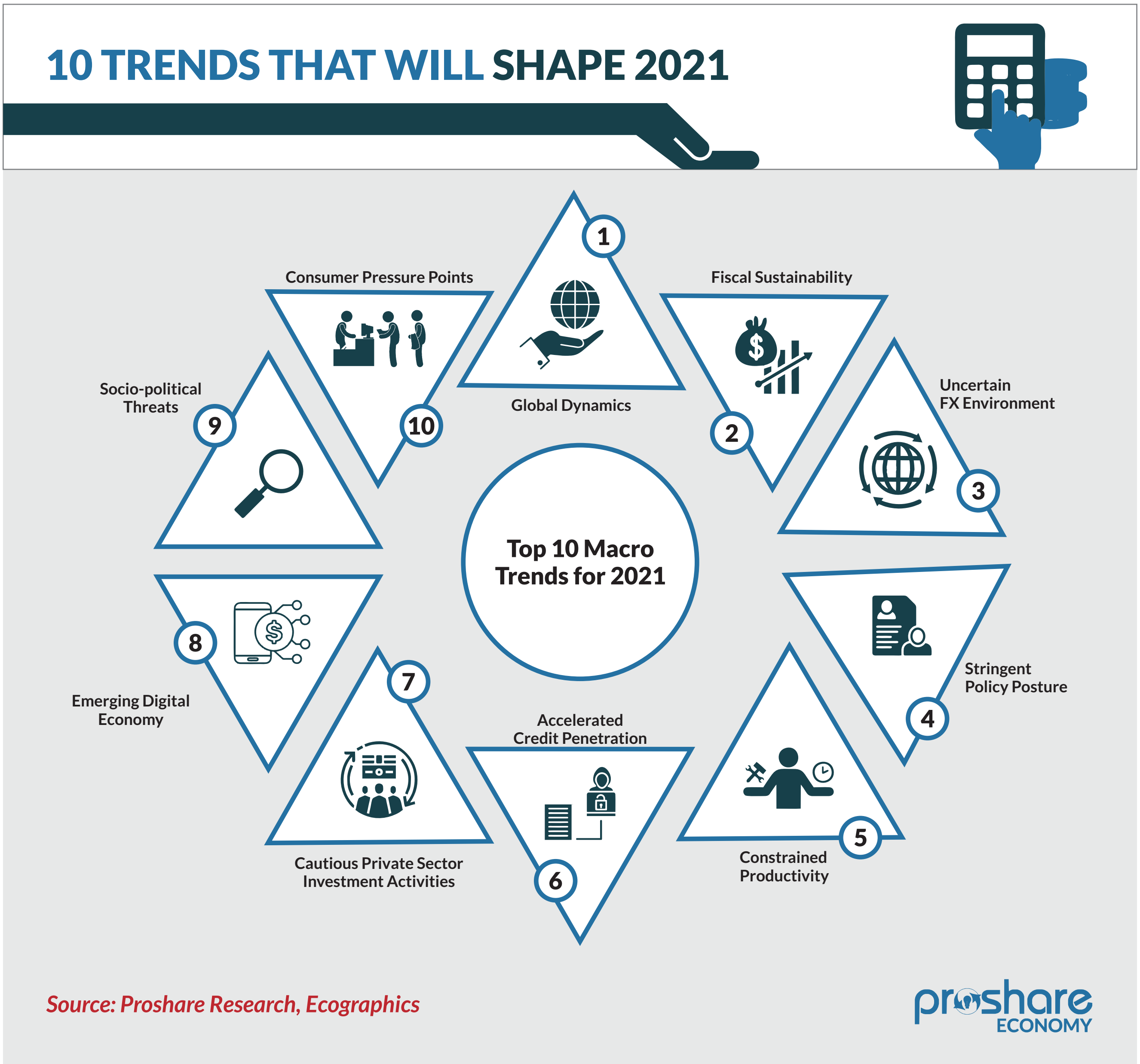
***Illustration 51:* Gen Z as the New Consumer**



The consumer pressure points of 2021 will be compelling and crushing as young people seek walkarounds economic disruption and political tensions.

The 10 mega moves in 2021 will be a potpourri of the subtly consequential and the brazenly recognisable (see Illustration 52).

Illustration 52: Mega Moves and Mammoth Movements



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