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Nigeria recorded a Gross Domestic Product (GDP) growth of 4.03% (year-on-year) in 2021, exceeding its projected GDP growth rate of 3% for the fiscal year. This modest annual GDP growth came on the back of five consecutive quarters of positive growth, following the country’s brief economic recession in 2020 when the economy contracted by 6.10% and 3.62%, respectively, in the second and third quarters of the year.

Nigeria’s exit from the 2020 economic recession was weak, as the GDP growth rates for Q4 2020 and Q1 2021 were 0.11% and 0.51%, respectively. The country’s economic growth stabilized in the second, third and fourth quarters of 2021, as it recorded positive GDP growth rate of 5.01%, 4.03%, and 3.89, respectively. Admittedly, these growth rates were boosted by the base effect of the economic contractions that Nigeria experienced in 2020 due to the twin shocks of COVID-19 and low crude oil prices. Nonetheless, it is important to note that the country’s overall year-on-year economic growth of 4.03% in 2021 was no mean feat, considering that the effects of the pandemic lingered in 2021, as the Delta and Omicron variants of COVID-19 negatively affected global economic recovery and triggered new restrictions and lockdowns in many countries.

The non-oil sector of the economy grew by 4.4% in 2021, following a contraction of 1.25% in 2020. The Information, Communication and Technology (ICT), Agriculture and Manufacturing sectors of the Nigerian economy grew by 6.55%, 2.13% and 3.35% respectively, in 2021, and served as key drivers for the growth witnessed in the country’s non-oil sector. Notwithstanding the increased demand for crude oil and the surge in oil prices, Nigeria’s oil sector declined by 8.30% in 2021, as it continued to suffer setbacks due to technical and social issues. The country failed to meet its oil production target of 1.86 million barrels per day (mbpd), as average crude oil production declined steadily from 1.72 mbpd in Q1 2021 to 1.50 mbpd in the fourth quarter of the year. This decline in production volumes also had significant budgetary implications, as Nigeria fell short of its oil revenue projection of ₦1.843 trillion (January to November pro-rata) by 47.4%, notwithstanding the 69 percent year-on-year increase in the average price of Bonny Light crude, from US$42.1 per barrel in 2020 to US$71.1 per barrel in 2021.

Overall, the oil sector contributed 7.24% to the country’s GDP in 2021, while the non-oil sector contributed the balance of 92.76%, up by 0.92 percentage points from 2020.

The deterioration of the purchasing power of Nigerians continued in 2021, as the country’s double-digit inflation surged to a four-year high of 18.17% (year-on-year) in March 2021 before gradually decelerating to 15.63% in December 2021. The average inflation rate for the year was 16.99%, 5.04 percentage points above the target inflation rate of 11.95% reflected in the 2021 Federal Government (FG) Budget. The high rate of inflation is largely attributable to the depreciation of the Naira and its impact on imported raw materials and inputs for production/total consumption, disruption in the global food supply chain and the underinvestment in transport and logistics infrastructure.
On a positive note, the Petroleum Industry Bill was assented to by the President in August 2021 and is expected to drive investment in the Nigerian oil and gas industry. The Act provides the legal, governance, administrative, regulatory and fiscal framework for the transformation of Nigeria’s petroleum industry and development of host communities.

The President also signed the Appropriation Bill, 2022 into law on 31 December 2021, maintaining his administration’s tradition of early budget passage. The 2022 FG Budget, themed “Budget of Economic Growth and Stability”, is designed to deliver on the strategic objectives of the National Development Plan (NDP) for 2021 to 2025 fiscal years. The FG adopted conservative crude oil production and price benchmarks of 1.88 mbpd and US$62 per barrel, respectively, in the Budget, as oil price is forecasted to average US$74 in 2022. The FG expects to generate 65% of its revenue from non-oil sources and 35% from oil-related sources in 2022.

Although revenue generation remains a fiscal constraint for the FG, one of its strategies for improving domestic revenue generation is by making incremental changes to Nigeria’s fiscal framework through the enactment of annual Finance Acts. In this regard, the Finance Act, 2021 (“the Finance Act” or “the Act”) introduced an excise duty at N10 per litre on non-alcoholic, carbonated, and sweetened beverages, fine-tuned tax law provisions pertaining to the taxation of the digital economy, and increased the Tertiary Education Tax rate from 2% to 2.5%. It is imperative that the FG achieves or surpasses its budgeted revenue of ₦10.7 trillion, to ensure effective implementation of the ₦17.1 trillion budgeted expenditure and curtail the country’s budget deficit, which currently stands at ₦6.39 trillion, and is about 3.5% of the country’s GDP.

The FG has projected a GDP growth rate of 4.2% for the 2022 fiscal year, which is higher than the 3.4% projected by the International Monetary Fund (IMF), and 2.8% projection by the World Bank.

Although the positive impact of the fiscal changes introduced by the Finance Act, the implementation of the NDP, and increase in crude oil prices could positively impact revenue generation, the rise in Nigeria’s total public debt and the pressure on the Naira are likely to persist, and the target inflation rate of 13% is unlikely to be achieved. Whether the FG would be able to deliver the forecasted GDP growth would largely depend on effective execution of policy measures to stabilize the macroeconomic environment, and implementation of critical reforms that will curb insecurity, catalyse inclusive economic growth, improve the country’s business environment, and attract foreign direct investment (FDI).

The FG’s focus on economic growth and stability is especially important, considering that 2022 is a pre-election year. Thus, it is crucial, for instance, that the inflationary pressures that would arise from pre-election spending are effectively managed, and that the Federal and State governments keep focused on economic progress, notwithstanding the distraction from governance expected to occur from political campaigns during the year.

This publication reviews Nigeria’s economic performance in 2021, FG’s budget for 2022 and discusses the impact of the budget allocations and policy changes on the various sectors of the Nigerian economy.

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Kunle Elebute
National Senior Partner, KPMG Nigeria
& Chairman, KPMG Africa

1 World Bank Commodity Markets Outlook
2.0 2021 Budget Financials
## Budget Financials

### Baseline Assumptions

<table>
<thead>
<tr>
<th></th>
<th>2021 Revised Budget</th>
<th>2022 Approved Budget</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benchmark oil price</td>
<td>$40 per barrel</td>
<td>$62 per barrel</td>
<td>55%</td>
</tr>
<tr>
<td>Oil production volume (mbpd)</td>
<td>1.86 million</td>
<td>1.88 million</td>
<td>1%</td>
</tr>
<tr>
<td>Average exchange rate</td>
<td>₦379:1</td>
<td>₦410:1</td>
<td>8%</td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>11.95%</td>
<td>13.00%</td>
<td>9%</td>
</tr>
<tr>
<td>GDP growth rate (%)</td>
<td>3.00%</td>
<td>4.20%</td>
<td>40%</td>
</tr>
</tbody>
</table>

### Expenditure Framework

<table>
<thead>
<tr>
<th>Budget Lines</th>
<th>2021</th>
<th>2022</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory transfer</td>
<td>496.53</td>
<td>869.67</td>
<td>75%</td>
</tr>
<tr>
<td>Debt service</td>
<td>3,124</td>
<td>3,609.24</td>
<td>16%</td>
</tr>
<tr>
<td>Sinking fund</td>
<td>200.00</td>
<td>270.71</td>
<td>35%</td>
</tr>
<tr>
<td>Recurrent (Non-Debt):</td>
<td>5,765.30</td>
<td>6,909.85</td>
<td>20%</td>
</tr>
<tr>
<td>Personnel Costs (MDAs)</td>
<td>3,046.46</td>
<td>3,494.37</td>
<td>15%</td>
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<tr>
<td>Personnel Costs (GOEs)</td>
<td>701.16</td>
<td>617.72</td>
<td>-12%</td>
</tr>
<tr>
<td>Overheads (MDAs)</td>
<td>382.58</td>
<td>371.73</td>
<td>3%</td>
</tr>
<tr>
<td>Overheads (GOEs)</td>
<td>312.08</td>
<td>451.00</td>
<td>45%</td>
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<tr>
<td>Pension, Gratuities and Retirees Benefits</td>
<td>504.19</td>
<td>577.86</td>
<td>15%</td>
</tr>
<tr>
<td>Other Service Wide Votes (including GAVI/Immunization)</td>
<td>403.82</td>
<td>966.87</td>
<td>139%</td>
</tr>
<tr>
<td>Presidential Amnesty Programme</td>
<td>65.00</td>
<td>65.00</td>
<td>0%</td>
</tr>
<tr>
<td>TETFUND - Recurrent</td>
<td>-</td>
<td>15.30</td>
<td>100%</td>
</tr>
<tr>
<td>Special Interventions (Recurrent)</td>
<td>350.00</td>
<td>350.00</td>
<td>0%</td>
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<tr>
<td>Aggregate Capital Expenditure:</td>
<td>5,233.60</td>
<td>5,961.07</td>
<td>14%</td>
</tr>
<tr>
<td>Capital Supplementation</td>
<td>763.34</td>
<td>455.59</td>
<td>-40%</td>
</tr>
<tr>
<td>Capital Expenditure in Statutory Transfers</td>
<td>249.05</td>
<td>493.66</td>
<td>98%</td>
</tr>
<tr>
<td>Special Intervention Programme (Capital)</td>
<td>10.00</td>
<td>7.00</td>
<td>-30%</td>
</tr>
<tr>
<td>Amount available for MDAs Capital Expenditure</td>
<td>2,811.07</td>
<td>2,750.89</td>
<td>-2%</td>
</tr>
<tr>
<td>GOEs Capital Expenditure</td>
<td>335.59</td>
<td>647.08</td>
<td>93%</td>
</tr>
<tr>
<td>TETFUND Capital Expenditure</td>
<td>-</td>
<td>290.70</td>
<td>100%</td>
</tr>
<tr>
<td>Grants and Donor Funded Projects</td>
<td>354.85</td>
<td>63.38</td>
<td>-82%</td>
</tr>
<tr>
<td>Multilateral/Bilateral Project-tied Loans</td>
<td>709.69</td>
<td>1,155.82</td>
<td>63%</td>
</tr>
<tr>
<td>FGN Share of Oil Price Royalty Transferred to NSIA</td>
<td>-</td>
<td>96.94</td>
<td>100%</td>
</tr>
<tr>
<td>Capital Expenditure (Exclusive of Transfers)</td>
<td>4,984.55</td>
<td>5,467.40</td>
<td>10%</td>
</tr>
<tr>
<td>Total FGN Budget (Excluding GOEs &amp; Project-tied Loans)</td>
<td>12,512.23</td>
<td>14,255.24</td>
<td>14%</td>
</tr>
<tr>
<td>Total FGN Budget (Excluding GOEs &amp; Project-tied Loans)</td>
<td>14,570.76</td>
<td>17,126.87</td>
<td>18%</td>
</tr>
<tr>
<td>Description</td>
<td>(₦) billion</td>
<td>(₦) billion</td>
<td>Percentage Change</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
<td>-------------</td>
<td>-------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Amount Available for FGN Budget (excluding GOEs retained revenue)</td>
<td>6,772.58</td>
<td>9,012.41</td>
<td>33%</td>
</tr>
<tr>
<td>Share of Oil Revenue</td>
<td>2,011.02</td>
<td>3,362.01</td>
<td>67%</td>
</tr>
<tr>
<td>Share of Dividend</td>
<td>208.54</td>
<td>195.72</td>
<td>-6%</td>
</tr>
<tr>
<td>NLNG</td>
<td>208.54</td>
<td>187.40</td>
<td>-10%</td>
</tr>
<tr>
<td>Bank of Industry</td>
<td>-</td>
<td>8.32</td>
<td>100%</td>
</tr>
<tr>
<td>Share of Minerals &amp; Mining</td>
<td>2.65</td>
<td>2.92</td>
<td>10%</td>
</tr>
<tr>
<td>Share of Non-Oil Taxes:</td>
<td>1,488.92</td>
<td>2,132.08</td>
<td>43%</td>
</tr>
<tr>
<td>Share of CIT</td>
<td>681.72</td>
<td>909.30</td>
<td>33%</td>
</tr>
<tr>
<td>Share of VAT</td>
<td>238.43</td>
<td>316.69</td>
<td>33%</td>
</tr>
<tr>
<td>Share of Customs</td>
<td>508.27</td>
<td>834.12</td>
<td>64%</td>
</tr>
<tr>
<td>Share of Federation Account Levies</td>
<td>60.51</td>
<td>71.97</td>
<td>19%</td>
</tr>
<tr>
<td>Share of Electronic Money Transfer Levy (formerly called Stamp Duty)</td>
<td>500.00</td>
<td>29.37</td>
<td>-94%</td>
</tr>
<tr>
<td>Share of Oil Price Royalty</td>
<td>-</td>
<td>96.94</td>
<td>100%</td>
</tr>
<tr>
<td>Revenue from GOEs</td>
<td>2,173.86</td>
<td>3,306.60</td>
<td>52%</td>
</tr>
<tr>
<td>GOEs Operating Surplus (80% of which is captured in Independent Revenue)</td>
<td>-825.02</td>
<td>-1,578.21</td>
<td>91%</td>
</tr>
<tr>
<td>Independent Revenue</td>
<td>1,061.90</td>
<td>2,216.22</td>
<td>109%</td>
</tr>
<tr>
<td>Draw-down from Special Levies Accounts</td>
<td>435.00</td>
<td>300.00</td>
<td>-31%</td>
</tr>
<tr>
<td>Signaure bonus / Renewals / Early Renewal</td>
<td>677.02</td>
<td>280.86</td>
<td>-59%</td>
</tr>
<tr>
<td>Domestic Recoveries + Assets + Fines</td>
<td>32.68</td>
<td>26.93</td>
<td>-18%</td>
</tr>
<tr>
<td>Grants and Donor Funding</td>
<td>354.85</td>
<td>63.38</td>
<td>-82%</td>
</tr>
<tr>
<td>Education Tax (TETFUND)</td>
<td>-</td>
<td>306.00</td>
<td>100%</td>
</tr>
<tr>
<td>Amount available for FGN Budget (including GOEs)</td>
<td>8,121.41</td>
<td>10,740.80</td>
<td>32%</td>
</tr>
</tbody>
</table>
### Fiscal Items

<table>
<thead>
<tr>
<th>Fiscal Item</th>
<th>2021 Budget</th>
<th>2022 Budget</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Fiscal Deficit (including GOEs and Project-tied Loans)</td>
<td>6,449.35</td>
<td>6,386.07</td>
<td>-1%</td>
</tr>
<tr>
<td>Deficit/GDP (including GOEs and Project-tied Loans)</td>
<td>4.52%</td>
<td>3.46%</td>
<td>-1%</td>
</tr>
<tr>
<td>Capital Expenditure as % of Non-Debt Expenditure</td>
<td>47%</td>
<td>45%</td>
<td>-2%</td>
</tr>
<tr>
<td>Capital Expenditure as % of Total FGN Expenditure</td>
<td>36%</td>
<td>35%</td>
<td>-1%</td>
</tr>
<tr>
<td>Capital Expenditure (inclusive of Transfers, but exclusive of GOEs Capital &amp; Project-tied loans) as % of FGN Expenditure</td>
<td>33%</td>
<td>29%</td>
<td>-4%</td>
</tr>
<tr>
<td>Recurrent Expenditure as % of total FGN Exp (incl. GOEs + Project-tied Loans)</td>
<td>64%</td>
<td>65%</td>
<td>1%</td>
</tr>
<tr>
<td>Debt Service to FGN Revenue (incl. GOEs + Project-tied Loans)</td>
<td>38%</td>
<td>34%</td>
<td>-4%</td>
</tr>
<tr>
<td>Deficit as % of FGN Revenue (incl. GOEs + Project-tied Loans)</td>
<td>79%</td>
<td>59%</td>
<td>-20%</td>
</tr>
<tr>
<td><strong>Multi-lateral/Bi-lateral Project-tied Loans</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Restructured Loans</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Foreign Aid/Grant (in cash)</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>New Borrowings</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Foreign Borrowing</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Sub-Total</td>
<td>6,449.35</td>
<td>6,386.07</td>
<td>-0.98%</td>
</tr>
</tbody>
</table>

**Data Source:** Public presentation of the 2022 Budget, Office of the Honourable Minister of Finance, Budget, and National Planning

---

### Approved Revenue Sources (₦ trillion)

- **Oil Revenue**: 5.25
- **Non-Oil Revenue**: 3.36
- **Other Revenue**: 2.13

### Approved Expenditure (₦ trillion)

- **Recurrent (Non-Debt)**: 6.91
- **Statutory Transfer**: 3.61
- **Debt Service**: 0.87
- **Sinking Fund**: 0.27
- **Capital Expenditure**: 5.46

**Figure 1: 2022 Budget at a glance**
Figure 2: Recurrent expenditure

NON-DEBT RECURRENT (₦'B)

- Personal Costs (MDAs): 3,494.37
- Personal Costs (GOEs): 617.72
- Overheads (MDAs): 371.73
- Overheads (GOEs): 451.00
- Pension, Gratuities and Retirees Benefits: 5,778.60
- Other Service Wide Votes (including GAVI/Immunization): 966.87
- Presidential Amnesty Programme: 65.00
- TETFUND - Recurrent: 15.30

Figure 3: Capital expenditure

CAPITAL EXPENDITURE (₦'B)

- Capital Supplementation: 455.59
- Special Intervention Programme (Capital): 700.00
- GOEs Capital Expenditure: 2,750.89
- TETFUND Capital Expenditure: 647.08
- Grants and Donor Funded Projects: 290.70
- Multilateral/Bilateral Project-tied Loans: 63.38
- FGN Share of Oil Price Royalty transferred to NSIA: 96.94

2022 Macroeconomic Review
3.0 2021 Economic Review
1. Gross Domestic Product

According to the NBS\(^1\), Nigeria's GDP grew by only 0.51% in Q1 2021, but subsequently accelerated and achieved modest growth rates of 5.01%, 4.03%, and 3.98% in the second, third and fourth quarters of 2021, respectively. Overall, GDP grew by 3.4% in 2021 year on year, slightly above the baseline GDP growth rate assumption of 3.0% in the 2021 Budget of Economic Recovery and Resilience. In nominal terms, aggregate GDP was ₦49.3 trillion in Q4 2021 up from ₦43.6 trillion in the fourth quarter of 2020, reflecting a nominal growth rate of 13.1% year on year.

In the fourth quarter of 2021, Nigeria recorded an average daily oil production of 1.50 million barrels per day (mbpd). This was 0.06mbpd lower than the daily average production of 1.56mbpd recorded in the same quarter of 2020, and lower than the Q3 2021 production volume of 1.57mbpd by 0.07mbpd. On the whole, the oil sector contributed 7.24% to total real GDP in 2021, down from 8.16% in the previous year.

In contrast, the non-oil sector shrugged off the 1.25% decline it suffered in 2020, and recorded a modest year-on-year growth of 4.44% in 2021. This growth was mainly driven by the positive performance of the Trade, Information and Communication (Telecommunication), Financial and Insurance (Financial Institutions), Construction, Manufacturing (Food, Beverage, and Tobacco), Agriculture (Crop Production), and Transportation and Storage (Road Transport) sectors in 2021. In real terms, the non-oil sector contributed 92.76% of the nation's GDP, up from its 91.84% contribution in 2020.

Figure 4: GDP Growth from 2014 to 2021 (%)

<table>
<thead>
<tr>
<th>Boom Period</th>
<th>Slowdown</th>
<th>Recession</th>
<th>Recovery stage</th>
<th>Current state</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1'14</td>
<td>6.21</td>
<td>-1.58%</td>
<td></td>
<td>3.4%</td>
</tr>
<tr>
<td>Q3'14</td>
<td>6.34</td>
<td>0.83%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1'15</td>
<td>6.23</td>
<td>-0.50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3'15</td>
<td>6.94</td>
<td>1.91%</td>
<td>2.27%</td>
<td></td>
</tr>
<tr>
<td>Q1'16</td>
<td>5.94</td>
<td>2.84%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3'16</td>
<td>3.98</td>
<td>3.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1'17</td>
<td>2.22</td>
<td>-1.58%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3'17</td>
<td>2.94</td>
<td>0.83%</td>
<td></td>
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</tr>
<tr>
<td>Q1'18</td>
<td>2.11</td>
<td>2.84%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3'18</td>
<td>-0.07</td>
<td>-1.49%</td>
<td>2.27%</td>
<td></td>
</tr>
<tr>
<td>Q1'19</td>
<td>-2.34</td>
<td>-2.34%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3'19</td>
<td>-1.73</td>
<td>-1.73%</td>
<td>1.91%</td>
<td></td>
</tr>
<tr>
<td>Q1'20</td>
<td>-0.91</td>
<td>-4.50%</td>
<td>3.4%</td>
<td></td>
</tr>
<tr>
<td>Q3'20</td>
<td>-0.72</td>
<td>-6.10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1'21</td>
<td>-0.48</td>
<td>-6.62%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3'21</td>
<td>-1.73</td>
<td>-0.51%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: NBS and KPMG Analysis

Note: GDP provides an economic snapshot of Nigeria in growth rate and economic size

\(^1\) NBS Q3 GDP Reports
2. Unemployment/underemployment

According to the latest NBS Labour Force Survey\(^2\), Nigeria’s unemployment rate was 33.3\% in Q4 2020, a jump of 6.2\% from the 27.1\% reported in the penultimate report for Q2 2020, which itself reflected a 4\% uptick from the 23.1\% unemployment rate reported in the NBS’ Q3 2018 report. The country’s underemployment rate, however, declined from 28.6\% in Q2 2020 to 22.8\% in Q4 2020, having previously increased from 20.1\% in Q3 2018.

Essentially, the NBS Labour Force Survey reflects a combined unemployment and underemployment rate of 56.1\% (i.e., 33.3\% + 22.8\%) as of Q4 2020. This implies that one in every two Nigerians in the country’s labour force is either unemployed or underemployed.

3. Inflation

Nigeria’s headline inflation rate reached a four-year high of 18.17\% (year-on-year) in March 2021 before slowing down during the year. As of September 2021, the country recorded an inflation rate of 16.63\%, which represents a 292 basis points increase from the inflation rate of 13.71\% recorded as of September 2020\(^3\).

In December 2021, Nigeria’s inflation rate was 15.63\%; while the average inflation rate for the year was 16.99\%, 5.04\% higher than the target inflation rate of 11.95\% reflected in the 2021 FG Budget. The high inflation rate is largely due to rising food prices, disruption in food supply chain, the depreciation of the Naira, insecurity, and infrastructure decay.

Figure 5: Inflation; Headline & Food Inflation (%)

Source: NBS, KPMG Analysis

Note:
1. Inflation depicts the purchasing power of the Nigerian currency
2. Food Inflation otherwise referred non-core inflation measures a rise in the cost of an essential food item relative to the previous price.
3. All items less farm produces otherwise known as core inflation is the change in the price of goods and services excluding those from the food and energy sectors
4. Foreign exchange/foreign reserves/foreign investment

Nigeria was unable to maintain its 2020 official closing exchange rate of ₦379:US$1 in 2021, as the Naira closed at an official rate of ₦412.20 on 31 December 2021\(^4\) and ₦435:US$1 on the Investors and Exporters Window\(^5\).

The sustained intervention of the Central Bank of Nigeria (CBN) in the foreign exchange (FX) window continues to have an adverse impact on the country’s foreign reserves. The reserves, which stood at US$35.23 billion as of February 2021, declined to US$33.33 billion in July 2021 before increasing to US$40.53 billion\(^6\) as of 31 December 2021 due to improved oil prices, FX demand management policies, Eurobond inflow and the IMF’s special drawing rights.

The total value of capital importation into Nigeria was US$6.70 billion in 2021, with portfolio investments (totalling $3.39 billion) being the dominant contributor. The aggregate imported capital in 2021 represents a year-on-year decline of 31% when compared with the total capital of $9.68 billion that was imported into the country in 2020\(^7\).

Figure 6: Interest rates and the yield on FGN Bonds

![Interest rates and the yield on FGN Bonds](image)

Source: CBN, KPMG Analysis

**Note:**
1. Treasury Bills (T-bills) rate measures rates on short-term investment securities issued by the government to finance nationwide borrowing requirements
2. 10-year bond measures interest rate yield on the bond instruments issued by the government

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\(^1\) https://www.cbn.gov.ng/rates/ExchRateByCurrency.asp
\(^2\) https://www.cbn.gov.ng/infops/reserve.asp
\(^3\) https://www.cbn.gov.ng/rates/ExchRateByCurrency.asp
\(^4\) https://nairametrics.com/2021/12/31/official-nafex-exchange-rate-closes-at-n435-1-in-2021/
\(^5\) https://www.cbn.gov.ng/intops/reserve.asp
\(^6\) NBS – Nigerian Capital Importation Q4 2021
\(^7\) NBS – Nigerian Capital Importation Q4 2020
4.0 2021 Budget Implementation
2021 Budget Implementation Review

President Muhammadu Buhari submitted the FGN’s 2021 Budget Proposal to the National Assembly (NASS) on 8 October 2020, and the Bill was subsequently signed into law on 31 December 2020. A supplementary budget of N982.73bn was also passed and assented to by the President on 26 July 2021, bringing the total appropriated expenditure for 2021 to ₦14.57 trillion.

Below is a summary of our assessment of the FGN’s implementation of the 2021 Budget:

**Budget Performance Parameters**

<table>
<thead>
<tr>
<th>S/N</th>
<th>Description</th>
<th>2021 Budget</th>
<th>November 2021 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Oil Price Benchmark (US$/b)</td>
<td>40.0</td>
<td>*79.31</td>
</tr>
<tr>
<td>2</td>
<td>Average Oil Production (mbpd)</td>
<td>1.86</td>
<td>**1.56</td>
</tr>
<tr>
<td>3</td>
<td>Exchange Rate (N/$)</td>
<td>379</td>
<td>410.15</td>
</tr>
<tr>
<td>4</td>
<td>Inflation (%)</td>
<td>11.95</td>
<td>15.40</td>
</tr>
<tr>
<td>5</td>
<td>GDP Growth Rate (%)</td>
<td>3.0</td>
<td>***4.03</td>
</tr>
</tbody>
</table>

* Average price of Nigerian crude up to December 2021.
** Average production as at Oct, inclusive of production for repayment of cash call arrears and condensates of about 77kbpd.
*** Q3 2021 GDP growth rate.

- Crude oil price benchmark as of December 2021 was $79.31 per barrel, which represents a 98.28% increase when compared with the $40 per 2021 FGN Budget assumption. The increase in COVID-19 vaccination rates, relaxation of pandemic-related restrictions, and a growing global economy resulted in global petroleum demand outpacing petroleum supply, thereby driving up crude oil prices. According to the US Energy Information Administration, the slower increase in petroleum supply was mostly attributable to Organisation of Petroleum Exporting Countries’ (OPEC’s) crude oil production cuts that started in late 2020. OPEC and other countries, such as Russia, announced in December 2020 that they would continue to limit production increases throughout 2021 to support higher crude oil prices. As a result, increasing demand and lower supply of crude oil resulted in consistent global petroleum and liquid fuels inventory withdrawals from February through December 2021, contributing to increasing crude oil prices.

- Nigeria recorded an average daily oil production of 1.57 mbpd in 2021. This represents a variance of 0.29 mbpd (15.59%) from the 1.86 mbpd benchmark in the 2021 Budget. The average daily oil production in 2021 was 11.79% lower than the 1.78 mbpd recorded in 2020.

- The CBN adjusted the official exchange rate to ₦410:US$1 by August 2021, 7.59% above the target rate ₦379:US$1 in the 2021 FGN Budget.

- Inflation rate remained in the double digits throughout 2021, and was 15.63% as at December 2021, which is 3.68% points higher than the expected inflation rate of 11.95%. This figure is lower than the inflation rate recorded at the end of 2020 (15.75%) and was driven by the increase in both food and core inflation.

- Overall, GDP growth rate in 2021 was higher than the projected rate, as the Nigerian economy witnessed a growth of 3.4% in 2021, compared to the forecast of 3.0% in the 2021 FGN Budget.

The increase in COVID-19 vaccination rates, relaxation of pandemic-related restrictions, and a growing global economy resulted in global petroleum demand outpacing petroleum supply, thereby driving up crude oil prices.”
Revenue Performance

<table>
<thead>
<tr>
<th>S/N</th>
<th>AGGREGATE FEDERAL GOVERNMENT REVENUE</th>
<th>2021 Budget</th>
<th>Pro Rata (Jan-Nov)</th>
<th>Actual (Jan-Nov)</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Billions of Naira</td>
<td>Billions of Naira</td>
<td></td>
<td>%</td>
</tr>
<tr>
<td>1</td>
<td>Oil Revenue</td>
<td>2,011.02</td>
<td>1,843.43</td>
<td>970.33</td>
<td>(873.11)</td>
</tr>
<tr>
<td>2</td>
<td>Share of Dividend (NLNG)</td>
<td>208.54</td>
<td>191.16</td>
<td>11731</td>
<td>(73.86)</td>
</tr>
<tr>
<td>3</td>
<td>Minerals &amp; Mining Revenue</td>
<td>2.65</td>
<td>2.43</td>
<td>3.15</td>
<td>0.72</td>
</tr>
<tr>
<td>4</td>
<td>Non-Oil Revenue:</td>
<td>1,488.92</td>
<td>1,364.85</td>
<td>1,621.24</td>
<td>256.40</td>
</tr>
<tr>
<td>i</td>
<td>CIT</td>
<td>681.72</td>
<td>624.91</td>
<td>718.58</td>
<td>93.67</td>
</tr>
<tr>
<td>ii</td>
<td>VAT</td>
<td>238.43</td>
<td>218.56</td>
<td>360.56</td>
<td>142.00</td>
</tr>
<tr>
<td>iii</td>
<td>Customs Revenues</td>
<td>508.27</td>
<td>465.91</td>
<td>503.75</td>
<td>3783</td>
</tr>
<tr>
<td>iv</td>
<td>Federation Account Levies</td>
<td>60.51</td>
<td>55.47</td>
<td>38.36</td>
<td>(17.11)</td>
</tr>
<tr>
<td>B</td>
<td></td>
<td>4,410.28</td>
<td>4,042.76</td>
<td>2,797.83</td>
<td>(1,244.93)</td>
</tr>
<tr>
<td>1</td>
<td>FGN Independent Revenue</td>
<td>1,061.90</td>
<td>973.41</td>
<td>1,103</td>
<td>130.19</td>
</tr>
<tr>
<td>2</td>
<td>FGN Drawdowns from Special Accounts/Levies</td>
<td>435.00</td>
<td>398.75</td>
<td>98.00</td>
<td>(300.75)</td>
</tr>
<tr>
<td>3</td>
<td>Signature Bonus/Renewals/Early Renewals</td>
<td>677.02</td>
<td>620.60</td>
<td>381.27</td>
<td>(239.33)</td>
</tr>
<tr>
<td>4</td>
<td>Domestic Recoveries + Assets + Fines</td>
<td>32.68</td>
<td>29.95</td>
<td>-</td>
<td>(29.95)</td>
</tr>
<tr>
<td>5</td>
<td>Electronic Money Transfer Levy (formerly Stamp Duty)</td>
<td>500.00</td>
<td>458.33</td>
<td>13.87</td>
<td>(444.46)</td>
</tr>
<tr>
<td>6</td>
<td>Grants and Donor Funding</td>
<td>354.85</td>
<td>325.28</td>
<td>(325.28)</td>
<td>(35.34)</td>
</tr>
<tr>
<td>7</td>
<td>GOEs Retained Revenue</td>
<td>1,348.84</td>
<td>1,236.43</td>
<td>1,201.09</td>
<td>(35.34)</td>
</tr>
</tbody>
</table>

Source: Minister of Finance’s 2022 FGN Budget Presentation

- Aggregate revenue for the 2021 FGN Budget was ₦5.1 trillion as at November 2021, which represents only 74% of the target.
- FGN’s share of oil revenues as at November 2021 was ₦970.33 billion, representing 53% of the pro-rated sum of ₦1.84 trillion. The non-oil tax revenue was ₦1.62 trillion, which is 18.8% above the revenue target. Companies Income Tax (CIT) and Value Added Tax (VAT) collections were ₦718.58 billion and ₦360.56 billion, respectively, representing 15% and 65%, respectively, of the pro-rata targets for the period. Customs revenue as at November 2021 was ₦503.75 billion (8.1% above the pro-rata target).
- Revenue generation from all sources was lower than budgeted, with the exception of minerals and mining revenues and non-oil tax revenue which were 29.6% and 18.8% higher than the pro-rata budget estimates, respectively.
- Other revenues as at November 2021 totalled ₦2.79 trillion, with ₦1.10 trillion in FGN Independent income and ₦1.20 trillion in Government Owned Enterprises (GOEs) retained revenues.
- Revenue of ₦13.87 billion generated from Electronic Money Transfer Levy was 97% lower than the pro-rata budget of ₦458.33 billion.
## Expenditure Performance

<table>
<thead>
<tr>
<th>Fiscal Items</th>
<th>2021 Budget (Jan-Nov)</th>
<th>Pro Rata (Jan-Nov)</th>
<th>Actual (Jan-Nov)</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AGGREGATE FEDERAL GOVERNMENT REVENUE</strong></td>
<td>14,570.76</td>
<td>13,356.53</td>
<td>12,562.25</td>
<td>794.28</td>
</tr>
<tr>
<td><strong>FGN EXPENDITURE (excl. GOEs and Project-tied Loans)</strong></td>
<td>12,512.23</td>
<td>11,469.55</td>
<td>11,781.02</td>
<td>(311.47)</td>
</tr>
<tr>
<td><strong>Statutory Transfers</strong></td>
<td>496.53</td>
<td>455.15</td>
<td>455.15</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Recurrent Expenditure</strong></td>
<td>9,089.68</td>
<td>8,332.21</td>
<td>8,706.58</td>
<td>(374.37)</td>
</tr>
<tr>
<td><strong>Non-Debt Recurrent Expenditure</strong></td>
<td>5,765.30</td>
<td>5,284.96</td>
<td>5,284.96</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Non-Debt Recurrent Expenditure (excl. GOEs)</strong></td>
<td>4,752.06</td>
<td>4,356.05</td>
<td>4,143.44</td>
<td>212.62</td>
</tr>
<tr>
<td><strong>Personal Costs (MDAs)</strong></td>
<td>3046.46</td>
<td>2,792.59</td>
<td>2,792.59</td>
<td>(0.00)</td>
</tr>
<tr>
<td><strong>Personal Costs (GOEs)</strong></td>
<td>312.08</td>
<td>642.73</td>
<td>224.00</td>
<td>418.73</td>
</tr>
<tr>
<td><strong>Pensions &amp; Gratuities (including Service-wide Pension)</strong></td>
<td>504.19</td>
<td>462.18</td>
<td>326.53</td>
<td>135.65</td>
</tr>
<tr>
<td><strong>Overheads (MDAs)</strong></td>
<td>382.58</td>
<td>286.07</td>
<td>137.79</td>
<td>(0.00)</td>
</tr>
<tr>
<td><strong>Overheads (GOEs)</strong></td>
<td>312.08</td>
<td>55.47</td>
<td>38.36</td>
<td>48.28</td>
</tr>
<tr>
<td><strong>Other Service Wide Votes</strong></td>
<td>403.82</td>
<td>370.17</td>
<td>359.69</td>
<td>10.48</td>
</tr>
<tr>
<td><strong>Presidential Amnesty</strong></td>
<td>65.00</td>
<td>59.58</td>
<td>54.17</td>
<td>5.41</td>
</tr>
<tr>
<td><strong>Special Intervention Programme</strong></td>
<td>350.00</td>
<td>320.83</td>
<td>259.76</td>
<td>61.07</td>
</tr>
<tr>
<td><strong>Debt Service</strong></td>
<td>3,324.38</td>
<td>3,047.35</td>
<td>4,201.35</td>
<td>(1,154.00)</td>
</tr>
<tr>
<td><strong>Domestic Debt</strong></td>
<td>2,183.49</td>
<td>2,001.53</td>
<td>2,200.30</td>
<td>(198.76)</td>
</tr>
<tr>
<td><strong>Foreign Debt</strong></td>
<td>940.89</td>
<td>862.48</td>
<td>885.01</td>
<td>(22.53)</td>
</tr>
<tr>
<td><strong>Sinking Fund</strong></td>
<td>200.00</td>
<td>183.33</td>
<td>183.33</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Interest on Ways &amp; Means</strong></td>
<td>-</td>
<td>-</td>
<td>1,115.45</td>
<td>(1,115.45)</td>
</tr>
<tr>
<td><strong>Aggregate Capital Expenditure</strong></td>
<td>4,984.55</td>
<td>4,569.17</td>
<td>3,400.52</td>
<td>1,168.65</td>
</tr>
<tr>
<td><strong>Capital Expenditure (MDAs + Others)</strong></td>
<td>3,939.27</td>
<td>3,611.00</td>
<td>2,981.08</td>
<td>629.92</td>
</tr>
<tr>
<td><strong>GOEs Capital Expenditure</strong></td>
<td>335.59</td>
<td>307.63</td>
<td>49.52</td>
<td>258.11</td>
</tr>
<tr>
<td><strong>Multi-lateral/Bilateral Project-tied Loans</strong></td>
<td>709.69</td>
<td>650.55</td>
<td>369.93</td>
<td>280.62</td>
</tr>
</tbody>
</table>

- FG spent ₦12.56 trillion out of the ₦13.57 trillion pro-rata budget as at November 2021. According to the public presentation made by the Honourable Minister of Finance, Budget, and National Planning (HMoFBNP), this performance is inclusive of expenditure estimates of the GOEs but exclusive of Project-tied Loans.

- ₦3.02 trillion and ₦4.20 trillion had been expended on personnel costs and debt servicing, respectively, by November 2021. The Statutory Transfers component of the Budget was fully implemented, while the total recurrent expenditure incurred was 4.5% more than the pro-rata budget figure. About ₦3.40 trillion of the pro-rata budget of ₦4.57 trillion was expended on capital projects as of November 2021. Of this, ₦2.98 trillion represents 83% of the provision for Ministries, Departments and Agencies’ (MDAs’) capital, ₦369.9 billion for Multi-lateral / Bilateral Project-tied loans, and ₦49.52 billion as GOEs’ capital expenditure.

- FG paid ₦1.11 trillion to the CBN as interest on Ways and Means as of November 2021, 21.9% higher than the ₦912 billion incurred as at December 2020. The
Interest cost largely accounted for the FGN’s variance of 37.9% over and above the ₦3.05 trillion pro-rata amount budgeted for debt servicing for January to November 2021.

- Actual budget deficit as of November 2021 was ₦1.14 trillion higher than the budget deficit (including supplementary budget) of ₦6.45 trillion. Significant expenditure on security equipment and operations contributed to the fiscal deficit. According to the HMoFBNP, Defence and Security accounted for 22% of the 2021 FGN Budget.

- The 2021 fiscal deficit was financed by new domestic borrowing of ₦5.06 trillion and new foreign borrowing of ₦1.62 trillion. The nation’s increased spending in 2021 was imperative to resuscitate the economy following two economic recessions in the last six years. Despite the nation’s increasing debt level, its budget deficit to GDP ratio of -4.3% as at November 2021 and Debt to GDP ratio of 30% as at September 2021 are among the lowest in Africa’s leading economies. However, Nigeria’s Debt Servicing to Revenue ratio of 76% as of November 2021 is one of the highest in Africa, and is a serious cause for concern.

![2021 Government Debt/GDP Ratio](image)
5.0 2022 Macroeconomic Analysis
Macroeconomic Outlook and Implications for the 2022 Budget

1. Global Pressure Points

With the resumption of business activities and the continuation of COVID-19 vaccine roll-out, the global economy is projected to grow by 4.4% in 2022. However, recovery remains uneven among world economies owing to highly unequal vaccine access and differences in policy support. Nigeria’s budget implementation and continued economic recovery will be underpinned by global factors such as crude oil prices, oil production, and capital flows.

The Energy Information Administration (EIA) projects an average Brent crude oil price of $72 per barrel (pb) in 2022 as global oil inventories build up and supply and demand factors balance. While this reflects a decline from the current levels of around $110pb, it is significantly higher than the oil price benchmark of $62pb in the 2022 FGN Budget. Hence, the budgeted oil price benchmark may be very conservative, given current market realities and future projections.

The decision of OPEC and partner countries (OPEC+) to adjust monthly quota by 400,000 barrels per day (bpd) each month is expected to gradually increase global oil output. Furthermore, the threat of sanctions on Russian hydrocarbon exports and uncertainties surrounding supplies may exacerbate existing oil market tightness and potentially result in increased oil prices.

Although the spike in oil price will have a positive impact on Nigeria’s oil revenue, rising subsidy costs and inability to meet oil production quota would put a strain on the FGN’s 2022 Budget. It is therefore imperative for the FGN to completely deregulate the downstream petroleum industry, and address the operational and technical setbacks in the industry to realise and possibly surpass its budgeted oil production benchmark and oil revenue of 1.88 million bpd and N3.16 trillion, respectively.

We expect to see increased capital inflows on the back of economic growth recovery. However, this might be subdued by the persistent volatility of the Naira and rising concerns around capital repatriation. Furthermore, the quantitative tightening of major economies (such as tapering by the United States government) and a potential hike in interest rates in 2022 could translate to scarcer FX. Consequently, Nigeria may have to increase interest rates and sovereign bond yields to attract foreign inflows, putting further pressure on debt servicing.

Lastly, we expect to see a modest growth in remittances to Nigeria as the CBN pushes to channel inflows through the banking system.

2. Monetary Policy Environment

Monetary policy developments – particularly the exchange and interest rate environment, and price stability – will play an integral role in the FGN’s ability to accomplish its objectives in the 2022 Budget.

The exchange rate policy environment has some critical issues that need addressing to achieve convergence around market-reflective rates and improve Nigeria’s balance of payment position. The CBN in 2021 introduced several policies aimed at stabilizing the FX environment, some of which include the ‘Naira 4 Dollar Scheme’ for diaspora remittances, the discontinuation of forex sales to Bureau de Change (BDC) operators in Nigeria and halt in licensing new ones, and most recently the launch of E-naira.

Furthermore, the CBN increased the supply of FX to commercial banks and adopted the IEFX rate as the official rate, thus adjusting the official exchange rate first by 8.18% from N379/US$1 to N410/US$1, and then readjusting further to N414.73/US$1. Though devaluations boost the FGN’s revenue, a downside is that it makes foreign debt repayment obligations more expensive.

In addition, the FGN has set a target of N410.15/US$1 for FX rate and we do not expect a potential devaluation in H1 2022 owing to higher oil prices, the recently approved US$16bn external borrowing plan and the drawdown and utilization of Nigeria’s IMF’s special drawing rights allocation.

In the near term, we expect the CBN to continue to adopt the “wait-and-see approach” as business activities continue to recover from the effect of the twin shocks of COVID-19 and oil price shock. The CBN is likely to tactically waddle through the policy complexity with a mild monetary tightening stance, such as the recent increase in MPR by 150 basis points, from 11.5% to 13%. Furthermore, the interest rate environment will determine the cost at which the FGN would access the domestic market to raise its targeted N2.57 trillion loan.

The significant hurdles that persist and negatively impact Nigeria’s economic attractiveness to foreign capital flows include:

i. misalignment of rates, as the real effective exchange rate valuation has been estimated to be between 20 to 30% higher than the current official rate of N416/US$1;

ii. CBN’s FX allocation policy [such as the exclusion of specific items (including foreign currency bond/ share purchase) from access to the official FX market and unclear allocation mechanism]; and

iii. increasing friction in the process and procedures for accessing and repatriating FX.

Nigeria’s inflation rate accelerated to 18.2% y-o-y in March 2021,
from 15.6% y-o-y in December 2020, driven by higher food prices. However, the y-o-y rate tapered down to 15.63% in December 2021. The elevated level of inflation can be attributed to a combination of supply-side factors and related input shortages, including disruption of agricultural activities caused by supply chain challenges, the lingering (and related) effects of COVID-19, an exchange rate depreciation, higher energy prices, and high global food prices. The recent upward trend in inflation rate is unlikely to continue in the second half of 2022, but the rate is expected to stay in double-digits territory driven by several factors.

However, there is a high possibility that the scheduled increase in electricity tariff, continued increase in the price of cooking gas, and continued downward pressure on the Naira will result in higher prices for imported goods and services. Increased electioneering activities ahead of the 2023 elections and flood in food-producing States could further drive up consumer prices, thereby threatening the FG’s 13% inflation target. However, local refining activities could potentially lower the future inflation rate. The FX savings from local sourcing of refined petroleum products, value added from other derivatives of refined products, and the non-oil sector’s positive effects on growth could ease inflationary pressure.

In conclusion, the monetary policy outlook for 2022 is uncertain. Although the Finance Act, 2021, Petroleum Industry Act, 2021 and the relative increase in crude oil prices could potentially impact the FG’s budgeted revenues positively, the debt repayment bill will be negative, and the budgeted inflation target rate of 13% is unlikely to be achieved.

3. Fiscal Sustainability

As Nigeria plans to reposition the economy on the path of inclusive and sustainable growth, going into 2022, we expect to see ballooning fiscal deficits, mounting government debt, moderate fiscal space flexibility, and modest budget implementation.

The fiscal deficit for 2022 amounts to ₦6.39 trillion, representing 3.46% of Nigeria’s GDP. While this is above the 3% threshold stipulated in the Fiscal Responsibility Act, the widening fiscal deficit can be attributed to the increased government spending needed to sustain the fast pace of economic recovery. It is, however, worth noting that increased fiscal deficit will, inevitably, lead to increased future debt servicing (which has grown from ₦953.6 billion in 2015 to ₦3.61 trillion in 2022). This may increase future budgetary outlays which, in turn, could lead to even larger deficits.

Expectedly, the FG plans to finance the 2022 fiscal gap with borrowings from domestic sources (₦2.57 trillion), foreign sources (₦2.57 trillion), multi-lateral/bi-lateral loan drawdowns (₦1.16 trillion), and privatization proceeds (₦90.7 billion), with the possibility of resorting to the Ways and Means facility (WMF) with the CBN in the possible event of poor revenues outcome or external financing shortfalls. With the increase in planned borrowing, government debt as a percentage of GDP is expected to grow from 35.7% in 2021 to 36.7% in 2022, thus, significantly increasing the debt burden of the country and posing a risk to debt sustainability. Furthermore, due to the outlook for a hike in interest rates in 2022, higher government borrowings may crowd out private sector players, thus limiting growth potential.

Nigeria’s fiscal space has continuously shrunk on the back of increasing debt-to-GDP ratio and low revenue-to-GDP ratio (estimated as 7.1% in 2021 [one of the lowest in the world]). This poses constraints for the government’s capacity to channel adequate funds to productive areas of the economy, thus leading to an exacerbation of the country’s economic woes. However, going into 2022, we see the macroeconomic situation showing some modest improvements. While we highlight the prospect of higher oil prices in 2022 (projected to be $72) being a positive for government revenue, we also spotlight the negative effect of the decision to retain oil subsidy on fiscal deficit.

The recently enacted PIA provides some respite for government oil revenues. A key effect of the Act is to purely commercialise the Nigerian National Petroleum Corporation and therefore maximise its return on investment. This represents a shift in a company that has primarily acted as an agency rather than a profit-driven organization, with the corporation not declaring any profits since its inception in 1977. This stands to remove the uncertainty that has led to significant reduction in investment in exploration and production in the country. Profits made by the NNPC will also serve as a boost to government revenues. The Act introduces the Host Community Development Trust Fund (HCDTF) whose purpose will be to, among others, foster sustainable prosperity, provide direct social and economic benefits from petroleum to host communities, and enhance peaceful and harmonious coexistence between licensees/lessees and host communities. The PIA also introduces a new tax regime, replacing the existing Petroleum Profits Tax with a Hydrocarbon Tax and introducing a tax on the income of oil companies. This extends the trend of an increasing tax net for the government and will be expected to significantly boost tax revenues.

Finally, we expect to see a modest budget implementation in 2022 as oil sustains soaring prices, though Nigeria’s underproduction of crude oil has the possibility of offsetting the gains.

4. Investment and Funding Climate

Following Nigeria’s exit from recession in Q4 2020 and the
rebounds in oil prices, foreign portfolio inflows into the country grew to US$1.2 billion in Q3 2021 from US$407 million in Q3 2020\(^\text{15}\), even as investment announcements during the first nine months of 2021 grew to US$19.1 billion compared to the US$16.7 billion reported in 2020 calendar year\(^\text{16}\). The improved investment and funding climate were further strengthened by the narrowing current account deficit which improved to US$424 million in Q2 2021 compared to the deficits of US$3.3 billion recorded in Q2 2020 and US$2.1 billion recorded in Q1 2021\(^\text{17}\).

Furthermore, a cursory look at the foreign trade data from the NBS shows that Nigeria’s foreign trade deficit dropped in Q2 2021 to ₦1.87 trillion from the ₦3.94 trillion recorded in the previous quarter. Just as the balance of payment has maintained a negative position since Q1 2019, Nigeria’s foreign trade balance has also been in deficit since Q4 2019, exacerbated by a significant increase in import value.

In 2022, we expect current account deficit to narrow further to 2.0% of GDP\(^\text{18}\) as constraints on oil production wane, thus facilitating a further strengthening of goods exports and potentially weaker Naira. Notwithstanding, imports will also witness an uptick due to improved domestic demand which should be offset by rising oil exports (supported by high oil prices coupled with increasing production as OPEC+ production restrictions are phased out). Similarly, the recent passage of the PIA should provide a substantial tailwind to oil output growth and, by extension, overall goods exports, provided the FGN is able to urgently arrest the crude oil theft situation in the country.

Additionally, we expect to see increased inflows of both direct and portfolio investments relative to 2021 as sentiments towards emerging markets improve, the FGN remains committed to making incremental progress on reforms, and as the recent interest rate hike by the apex bank is effected. Some downside risks to this outlook persist, including a return by the CBN to FX rationing (which was the CBN’s practice in most parts of 2020 and 2021). This would impair the confidence of foreign investors in Nigeria’s financial markets, while they adopt a flight to safety approach due to negative real return on investment and uncertainty around their FX repatriation.

### 5. Digitalisation

Being one of the largest ICT markets in Africa, the growth of the digital economy is one of the Nigerian government’s focus areas. The ICT sector has become a major catalyst of non-oil growth in recent years and a major contributor to Nigeria’s overall GDP. This is evident in the sector’s growth in contribution to GDP – from less 1% in 2000 to 12.6% in Q4 2021\(^\text{19}\). Similarly, the sector’s growth performance of 7.3% in 2021 outperformed non-oil sector growth of 4.4%\(^\text{20}\). This was despite the drop in tele-density from 108.94% in November 2020\(^\text{21}\) to 101.2% in November 2021, and the year-on-year drop in mobile and internet subscribers by 7.1% and 9.3%, respectively, due to the effect of the SIM card registration ban.

Furthermore, Financial Technology (FinTech) growth has sustained its upward momentum as SMEs and start-ups look to create innovative solutions to fill socio-economic gaps such as exclusion from the traditional banking system. Resultantly, according to investment monitor, fDi Markets, Nigeria recorded 40 greenfield FDI projects in the financial services sector between 2014 and 2019 – one of the most active sectors during the period. In 2020, FinTech firms in Nigeria raised US$160.3 million (25% of total FDI in starts ups, higher than any sector and up 49% from 2019). On a broader scale, according to the “West African Start-Up Decade Report 2010-19” by technology company TechPoint Africa, Nigeria accounted for 86.3% of the US$1.8 billion raised by 51 start-ups in the region between 2010 and 2019.

As such, even before the advent of the COVID-19 pandemic, the government had prioritized expansion in the sector through dedicated policies (e.g., launch of the National Digital Economic Policy and Strategy 2020-30 in 2019, roll out of the National Broadband Plan (NBP) 2020-25 in March 2020, launch of the National Cybersecurity Policy and Strategy 2021 etc.), infrastructure development and investment promotion. Consequently, given the sector’s role in enabling business continuity amid the COVID-19 pandemic, ICT will remain a priority in the years ahead, supported by the country’s large and youthful population and the rapid adoption of mobile internet.

Digitalisation is set to continue to grow and develop in 2022, supported by the waived fees for laying fibre-optic cables and various government regulations\(^\text{22}\). In addition, the FGN should focus on improving the ecosystem for entrepreneurs, infrastructure development and the future deployment of 5G – these will be most crucial in achieving the country’s goal of fostering a buoyant digital economy.

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\(^\text{15}\) Nigeria Bureau of Statistics: Q3 2021 Capital Formation Report  
\(^\text{16}\) National Bureau of Statistics  
\(^\text{17}\) Fitch Solutions Nigeria Country Risk Report (Q4 21)  
\(^\text{18}\) Fitch Solutions Nigeria Country Risk Report (Q4 21)  
\(^\text{19}\) Fitch Solutions Nigeria Country Risk Report (Q4 21)  
\(^\text{20}\) Fitch Solutions Nigeria Country Risk Report (Q4 21)  
\(^\text{21}\) Fitch Solutions Nigeria Country Risk Report (Q4 21)  
\(^\text{22}\) Fitch Solutions Nigeria Country Risk Report (Q4 21)
6.0 2022 Budget Analysis
2022 Budget Analysis

On 31 December 2021, President Muhammadu Buhari signed the 2022 Appropriation Bill (“2022 Budget”) approved by the National Assembly. Subsequently, the HMoFBNP Zainab Ahmed, provided further details on the approved 2022 Budget at a virtual presentation in Abuja on 5 January 2022. The approved 2022 Budget reflected an increase of ₦735 billion by the National Assembly. This, according to the Federal legislature, was done to make allowance for further intervention in critical areas such as education, healthcare, and national security.

Highlights of the approved 2022 Budget and our commentaries are presented below:

1. Revenue Projection

The FG may have set a realistic baseline crude oil production target of 1.88 mbpd (including condensates) in the approved 2022 Budget. According to OPEC Monthly Oil Market Report (MOMR), Nigeria’s average oil production output was 1.40mbpd, 1.34mbpd, and 1.27mbpd in Q1 2021, Q2 2021, and Q3 2021, respectively. The decline in the country’s crude oil production volume may be due to the shutdown of the Trans Forcados Pipeline since January 2021 and the uptick in crude oil theft in 2021.

The HMoFBNP, in her presentation, indicated that the benchmark oil price, which was initially set at $57, was premised on the average of forecasts by leading institutions, factors driving market fundamentals, global economic recovery, plans by government and market sentiments. However, the benchmark oil price was increased to $62 by the National Assembly. This increase may be premised on the World Bank’s forecast that crude oil prices will average $74 in 2022, as oil demand strengthens and reaches pre-pandemic levels.

In light of the above, it is our view that the benchmark oil price and oil production targets are realistic given a forecasted increase in oil supply in 2022. The FGN needs to take urgent action to address the crude oil theft situation in the country, though, in order to achieve the targeted crude oil production.

Further to the above, the FG intends to generate 69% of the 2022 projected revenue from non-oil sources. This percentage is just slightly lower than the 70% non-oil revenue projection in the 2021 Budget, indicating FG’s continued focus on internally generated revenue. It is, therefore, expected that there will be an increased drive to generate revenue from tax, GOEs and other non-oil sources.

Revenue generation remains a major fiscal constraint for the FGN and several measures are being instituted under the administration’s Strategic Growth Initiatives, including:
- Improving the tax administration framework including tax filing and payment compliance improvements
- Evaluating the effectiveness of fiscal incentives
- Identifying and plugging existing revenue leakages to enhance tax compliance and reduce tax evasion
- Leveraging technology and automation
- Optimising operational efficiencies and revenue generation focus of GOEs.

2. Expenditure

The aggregate expenditure in the approved 2022 Budget is ₦17.12 trillion, an 18% increase over the 2021 Budget.

Capital expenditure, which is estimated at ₦5.96 trillion, is 35% of the total expenditure and a 14% increase when compared to the 2021 Budget. The capital expenditure is inclusive of the capital component of statutory transfers, and GOEs’ capital and project-tied loan expenditures.

One of the FGN’s medium-term fiscal policy objectives, based on the Medium-Term Expenditure Framework (2021 to 2023), is to address the recurrent and spending imbalance by allocating at least 30% of FG’s spending to executing capital projects in line with the Economic Recovery and Growth Plan. This objective has been achieved in the approved 2022 Budget with capital expenditure allocation exclusive of statutory transfers at 30.36% of the aggregate expenditure.

Recurrent (non-debt) expenditure is estimated at ₦6.91 trillion, which is 40% of the total expenditure and a 20% increase over the 2021 Budget.

An aggregate expenditure of ₦1.12 trillion was allocated to the Education sector. ₦315.69 billion was allocated to the Ministry of Education, ₦112.29 billion to the Universal Basic Education Commission and ₦306 billion to the Tertiary Education Trust Fund for infrastructure projects in tertiary institutions, underpinning the FGN’s commitment to increase investments in human capital development.

The budgetary allocation to the Health sector amounts to ₦876.38 billion. Out of this, ₦770.87 billion was allocated to the Ministry of Health, ₦56.14 billion to the Basic Healthcare Provision Fund and ₦49.37 billion to the GA VI/immunization funds, including counterpart funding for donor supported programmes and global fund. The FG aims to utilise this allocation to fund critical health projects such as the strengthening of national emergency medical services and ambulance system, procurement of vaccines, polio eradication, and upgrading Primary Healthcare centres across the six geopolitical zones.
Debt service allocation of ₦3.61 trillion accounts for 21% of total budgeted expenditure and 34% of total budgeted revenue. Provision of ₦270.71 billion to retire maturing bonds to local contractors / suppliers, is 1.6% of total expenditure. This provision is in line with the FGN's commitment to offset accumulated arrears of contractual obligations dating back over a decade.

3. The Finance Act, 2021

Similar to the presentation of the 2020 and 2021 budgets, the President also presented the Finance Act, 2021 (“the Act”) alongside the 2022 Budget. This is to align Nigeria's laws and policies with globally acceptable fiscal policies. The Act was subsequently passed by the National Assembly and signed into law by the President on 31 December 2021.

The passage of the Act underpins the FG’s commitment to making incremental changes to Nigeria’s fiscal framework, and these changes continue to be fundamental to achieving economic growth and development in Nigeria while ensuring macroeconomic stability.

The FG, through the Act, has proposed a wide range of amendments to thirteen laws in Nigeria. These amendments are pivoted on revenue generation, promotion of tax equity and ensuring clarity in the tax laws. Some of these modifications are highlighted below:

I. Capital Gains Tax (CGT)

a. Imposition of capital gains tax on share disposals

Prior to the passage of the Act, gains arising from disposal of Nigerian government securities, stock and shares were exempted from CGT. The major reasons for this exemption were to attract FDI to Nigeria and develop the Nigerian capital market to be able to mobilise capital as required for establishing mega industries.

Section 2 of the Finance Act, 2021 has now amended the CGT Act (CGTA), subjecting gains arising from share disposals to 10% CGT where the aggregate proceeds (gross amount received) from such disposals exceed ₦100 million in any 12 consecutive months.

The Act, however, provides an exception where the whole or part of the disposal proceeds are reinvested within the same year of assessment (YOA) in acquiring shares in the same or other Nigerian companies. The Act also creates an exception for transfer of shares between an approved Borrower and Lender in a regulated securities lending transaction as defined in the CITA.

The above amendment may have significant impact on foreign portfolio investment in Nigeria as some foreign investors may have to pay CGT on the gains realised from the disposal of shares, despite suffering FX losses on exit, relative to their initial foreign capital importation into Nigeria. As such, the FGN may need to consider extending some comfort to such investors through the permission of some form of indexation to alleviate this concern.

II. Companies Income Tax (CIT)

a. Introduction of provision to restrict capital allowances

Prior to the enactment of the Finance Act, 2021, companies were allowed to claim capital allowances on all qualifying capital expenditure (QCE) utilised for the generation of their taxable and non-taxable business income, with the capital allowances claimable in a tax year restricted to two-thirds of assessable profits for companies other than those engaged in manufacturing and primary agricultural production/ agro-allied business.

However, Section 9 of Finance Act, 2021 has introduced a condition that provides that QCE used to generate taxable and tax-exempt income will not be fully deductible (in the form of capital allowances) against the taxable income of a company where the proportion of the company’s non-taxable income is greater than 20% of the total income of the company.

Hence, where a QCE is used in generating both taxable and non-taxable income, the capital expenditure would be prorated and only the portion relating to the taxable income would be allowable as a deduction by way of capital allowances, once the proportion of non-taxable income exceeds 20% of the total income of the company.

It is important to note that the above restriction of capital allowances does not apply to companies that enjoy pioneer status incentive.

b. Clarification on the claim of reduced minimum tax rate

In a bid to mitigate the impact of COVID-19 on the Nigerian economy, the Finance Act, 2020 introduced a reduced minimum tax rate of 0.25% of gross turnover less franked investment income. This reduced rate was applicable to tax returns prepared and filed for any YOAs falling due between 1 January 2020 and 31 December 2021.

Finance Act, 2021, in a bid to clarify the application of the reduced minimum tax rate, has introduced a right of election by taxpayers, to enable qualifying taxpayers to enjoy the reduced minimum tax rate of 0.25% in respect of any two consecutive
accounting periods ending on any date between 1 January 2019 and 31 December 2021.

This provision has helped to clarify the controversies that existed as to whether the reduced minimum tax rate would apply retrospectively, based on the initial periods specified by the Finance Act, 2020.

c. Penalty for failure to file CIT returns

Based on the provisions of Section 55 of the CIT Act (CITA), where a company fails to file tax returns within the statutory timeline provided by law, a penalty of ₦25,000 arises in the first month where such failure occurs and ₦5,000 for subsequent months where the failure to file continues.

Section 12 of Finance Act, 2021 has introduced a provision in the tax law to clarify that when a company pays its CIT based on the reduced minimum tax rate of 0.25% but fails to file the CIT returns on time, the penalty for failure to file its CIT returns will be an amount equal to the relief sought.

This effectively implies that companies that failed or fail to submit timely CIT returns for the 2019 to 2021 FYs will pay minimum tax at 0.5% of gross turnover less franked investment income in the affected YOAs, thus forfeiting the minimum tax relief they would otherwise have enjoyed.

It is, therefore, expected that this provision would encourage affected taxpayers to promptly file their tax returns to avoid the above negative consequence.

### III. Tertiary Education Tax (TET)

a. Increase in TET rate

The rate of TET in Nigeria, prior to the enactment of the Finance Act, 2021, was 2% of the assessable profits of companies registered in Nigeria, other than small companies (as defined in the CITA). However, the Act has now increased the rate to 2.5%.

b. Timeline for payment of TET

Section 2(2) of the Tertiary Education Trust Fund (Establishment, Etc.) Act was also amended by the Finance Act, 2021 to reduce the timeline for the payment of TET from 60 days after the FIRS has served a notice of the assessment on a company, to 30 days. This is to align the timing of payment of TET with that of CIT.

### IV. Nigeria Police Trust Fund (NPTF) Levy

a. Administration of the NPTF Levy

The NPTF (Establishment) Act, 2019 was enacted on 24 June 2019 and requires companies operating business in Nigeria to contribute a levy of 0.005% of their net profit to the fund. However, the Act did not stipulate the agency responsible for collecting the levy. The Finance Act, 2021 has now specified that the FIRS shall assess, collect, account for, and enforce the payment of the NPTF levy.

We commend the FGN on its continued commitment to the enhancement of the tax administration process in Nigeria through the enactment of Finance Act, 2021. We hope that the amendments introduced by the Act will help to boost domestic revenue mobilization, improve the ease of doing business in the country, and reflect in the country’s economic performance during the year.

A detailed review of the Finance Act is in the **Finance Act, 2021: Impact Analysis e-book** published by KPMG.
4. Exchange Rate

The approved 2022 Budget has specified the exchange rate at ₦410:$1, which is close to the current average market rate at the I & E Window. Although this benchmark exchange rate might seem realistic, it is important to note that the Naira has continued to fall against the dollar in 2022, despite the CBN’s policies and interventions.

Over the years, there have been persistent calls for the unification of the multiple official exchange rates in the country. The CBN’s creation of the Investors’ & Exporters’ Window in April 2017 to enable a market-determined exchange rate, was initially viewed by many as its response to these calls, but the CBN did not go the entire haul as other FX windows with disparate rates were still maintained.

In May 2021, the CBN adopted the NAFEX rate as the official exchange rate, setting aside a decades-long practice of using government-determined official exchange rates that are not necessarily reflective of the realities of the FX market. This is a step in the right direction, and would hopefully serve as a precursor to the implementation of well-thought-through policies designed to achieve the unification of FX rates in the country.

5. Electronic Money Transfer Levy (formerly Stamp Duty)

A substantial part of the FIRS’ stamp duties collection in 2021 accrued from the ₦50 stamp duty on qualifying electronic receipts and money transfers, which has now been renamed as Electronic Money Transfer Levy (EMTL). The FGN has now recognised the EMTL as a standalone source of government revenue for budget reporting purposes.

The FGN’s proposed EMTL revenue for 2022 is ₦29 billion. This is a 94% decrease from the ₦500 billion projected in the 2021 Budget, but is close to the actual EMTL revenue of ₦13.87 billion that was generated in 2021.

Although there seems to be no estimate in the 2022 FGN Budget for Stamp Duties revenue from other dutiable instruments, the FIRS has increased its focus on Stamp Duties collection in recent months. Thus, it is expected that the FGN would continue to enforce compliance with the Stamp Duties Act in 2022, especially with respect to taxpayers’ Stamp Duties exposures for the last five years.
2022 Business Sector Outlook and Recommendations
Agriculture – 2021 Reflections

The Agricultural sector (“the Sector”) presents a huge development potential for the Nigerian economy in terms of food security, contribution to GDP, and as a viable source of employment and FX earnings. In recent years, there has been increased government policies and incentives towards harnessing the untapped potential of the Sector, stimulating private sector involvement, and improving local production capacities. However, as in past years, the budget allocation to the Sector in 2021 of 1.5% continues to fall short of the 10% minimum prescribed in the Maputo Declaration of 2003, to which Nigeria is a signatory. The 1.8% budgetary allocation to the Sector in 2022 is not any different and continues to be grossly inadequate for the desired impact.

Despite the budget underfunding, the Sector contributed 26.8% to overall real GDP in Q4 2021, a decrease of 3.1% points from Q3 2021. The Sector’s GDP grew by 3.58% in Q4 2021, showing a marginal increase of 0.16 percentage points from the corresponding quarter of 2020, and an increase of 2.36 percentage points compared to the preceding quarter. Crop production remains the major driver of the sector, accounting for 91.23% of the overall nominal growth of the Sector in the fourth quarter 2021.

Aside from its impact on Nigeria’s GDP, the Agricultural sector also affected the country’s inflation, albeit negatively. In this regard, inflation increased to a 4-year high of 18.17% (year-on-year) in March 2021 before moderating to 15.63% in December 2021. The inflationary trend was headlined by food inflation, which was 22.95% in March 2021 and declined to 17.37% in December 2021, and was fuelled by farmers-herdsmen crises, banditry and insecurity across the country which prevented many farmers from going to their farms. COVID-19-related restrictions on movement also affected the Sector to an extent. However, following the easing of the restrictions, the Agricultural sector partially rebounded from the impact of the pandemic which slowed down investments in the Sector since 2020.

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24 National Bureau of Statistics, Consumer Price Index (CPI) and Inflation Report – March 2021
26 https://www.pharmaceutical-technology.com/covid-19-vaccination-tracker/ Assessed on 7 January 2022
The COVID-19 pandemic appears to be a phenomenon that has come to stay, and economies will have to develop coping strategies to mitigate its impact. The Omicron variant of the coronavirus and the potential for more mutations of the virus continue to pose risks of disruptions in economic activities in the immediate and future periods. However, the lower fatality rates observed during the omicron wave compared with the earlier variants suggest that the risk may be moderate.

The low level of vaccination in Nigeria – which was about 2.2% as of 31 December 2021 – is significantly below the global average of 51.5%, and may be concerning. We expect that as the situation evolves, the risks to the Agricultural sector may begin to resurface, and could negatively impact crop production, livestock, fishing, and forestry outputs. However, we do not expect significant impacts or disruptions. Improved security in food-producing middle belt States in the country is positive and promising for the 2022 outlook. The effective implementation of the anti-grazing laws which prohibit open grazing of cattle in some States, commencement of the pilot project of the National Livestock Transformation Plan (NLTP), and the abatement of the farmers-herdsmen crises will continue to boost the potential of the agriculture value chain. However, pockets of attacks by Boko Haram insurgents, and activities of kidnappers and bandits across the country need to be addressed to fully realise the gains.

Climate change resulting in unusual weather patterns continues to impact agricultural productivity in the country. Nigeria is particularly vulnerable to climate change due to weather-sensitive agricultural methods widely adopted by many peasant farmers in the country. Increased incidence of devastating floods in many parts of the country and the prolonged droughts and deforestation currently witnessed in parts of northern Nigeria, continue to disrupt agricultural production and supply, thereby threatening food security and growth of the Sector. We expect that the new Climate Change Act and the establishment of the National Council on Climate Change will herald an era of climate change actions which will positively impact the agriculture sector.

To continue to improve the Agricultural sector in 2022, the FG needs to consider the following recommendations:

- **Financial support for the sector:** Over the years, there have been tangible efforts in the aspect of financial support and funding for the Agricultural sector offered by government agencies such as the Bank of Industry, Bank of Agriculture, the various interventions by the Central Bank of Nigeria and initiatives of the Nigerian Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL) and the Federal Ministry of Agriculture, etc. Initiatives such as reduction in interest rates to single digits and grant of extended moratoriums and repayment holidays for interest and principal repayments of credit facilities, need to be further sustained in 2022 to consolidate the progress being made in the Sector. However, attention is required in the areas of improving accessibility of the various financial offerings to Agricultural sector players and driving increased participation of commercial banks in financing viable, capital-intensive agriculture projects.

- **Youth empowerment and attractiveness of the sector:** As indicated earlier, the agriculture sector offers huge employment potentials for the teeming youth in the country. However, the Sector is currently unattractive due to poor perception of agriculture as a profession and the under-developed state of rural infrastructure to suit the needs of the youth. The FG needs to tackle this challenge by initiating policies that are focussed at attracting and empowering the youth in the Sector. The youth energy and vibrancy will be needed in 2022 and beyond to support the development drive in the Sector.

- **Improved infrastructure:** Adequate infrastructure across the country is critical to creating an enabling environment for large scale investments in the agriculture sector. The FG needs to tackle the challenges of unreliable power supply and poor transportation infrastructure which hamper the local processing of raw agriculture produce and discourage private sector involvement. While we note the commencement of commercial rail transportation linking major cities in 2021, more needs to be done to minimise the impact of transportation costs on cost of food items and further ease the challenges hindering the progress of the Sector. Collaboration between the relevant ministries is required to ensure the synergy necessary for overall efficiency and effectiveness in delivery of the various infrastructure projects required to catalyse the growth of the Sector.

- **Security:** Agriculture production, including crop and cattle rearing, has recently become a target for insurgents and bandits in the northern States of the country. To guarantee food security across the country, the FGN needs to intensify efforts in ensuring that the security of lives and properties of farm owners and other agribusiness operations is guaranteed. The relative stability experienced in the farmers-herdsmen crises...
should be sustained by proactively exploring opportunities to manage tensions and build harmonious relationships between the farmers and herdsmen groups. More collaboration between the various security agencies and intelligence gathering/sharing would also be required to effectively address the security challenges.

**Fiscal and monetary policies:** The FGN through its agencies, including the Central Bank of Nigeria and Nigeria Custom Service, continue to issue guidelines which ban importation of, or restrict access to FX on, certain agricultural commodities with the aim of boosting local production. While these initiatives may present opportunities for the Sector in terms of creating local demand and thereby attracting both local and foreign investments, they also have the potentials to create demand-supply distortions, thus, exerting food inflationary pressures. Also, import restrictions or bans may have a negative spill-over effect on the manufacturing sector which could further create unemployment where the affected product is a major input. Fiscal incentives such as duty exemption on importation of agriculture-related equipment and differential tax rates, will be effective in harnessing the huge potential of the Sector. The FGN will need to evaluate the potential impact of any imminent restriction on the overall economy and ensure consistency in policies to boost investor confidence.

**Implementation of the Africa Continental Free Trade Area Agreement (AfCFTA):** The AfCFTA is expected to pick up momentum in 2022. Several stakeholder fora were held in 2021 to drive awareness and readiness to speed up implementation. We expect the FGN to implement initiatives towards positioning the Nigerian economy to take full advantage of the opportunities in the AfCFTA by proactively mitigating identified risks and challenges. Capacity building among SMEs and other sector players around international trade practices and how to take advantage of the AfCFTA will be required to enable the country to gain competitive advantage over other African countries as the implementation gains momentum. Active participation of the private sector and collaboration across sectors and governments will also be key to Nigeria’s AfCFTA competitiveness.

**Improving yield of agricultural produce:** Increasing leverage on research efforts across the country will be required to improve the yield of agriculture produce, thereby creating competitive advantage for agricultural production in the country. Agriculture research institutes such as the Agricultural Research Council of Nigeria (ARCN), Institute of Agricultural Research (IAR), National Animal Production Research Institute (NAPRI), National Horticultural Research Institute (NIHORT), International Institute of Tropical Agriculture (IITA), etc., should be encouraged to intensify efforts to support and provide high-yielding seedlings to farmers. Furthermore, increased mechanization is a key driver for improving yield of agricultural produce. We expect increased support from both State and Federal governments in the procurement of tractors and other mechanized farming equipment which should be made available to farmers through various farmer associations and organisations.

Our recommendations should be a useful leverage to resolving the challenges and positioning the Agricultural sector for growth in 2022 and beyond.
2021 Reflections

The Consumer and Industrial Markets (CIM) showed some decent growth in the year 2021. Businesses globally have been impacted by COVID-19 and this influenced all sectors to reconsider their business models, route-to-market, and even capital structures. Vaccination status is increasing optimism in consumers and this would contribute positively to the nation’s economic recovery. As of 31st December 2021, 5% of the country’s population had taken at least one dose of the vaccine while 2.2% had been fully vaccinated. Favourable external conditions on trade and commodity prices and increased agricultural production also contributed to the positive outlook of the CIM sector in 2021.

Nigeria’s consumer goods industry recorded a recovery from its dip in 2020 where the impact of the pandemic was grossly felt by the sector. The impact of COVID-19 on the consumer goods sector was mixed, though, as players in Food and Beverage & Pharmaceuticals were categorized as providers of essential products and services. According to the NBS, real household consumption expenditure as a proportion of GDP showed recovery in 2021, as it rose to 76% during the year from 62% in 2020. This is the highest it had reached since 2010, indicating a fast rise in household expenditure on food, home and personal care items and durable goods. Nigeria’s real GDP rose by 3.98% in Q4’21 while the food, beverage & tobacco sub-segment grew by 4.84%, underpinning a strong recovery.

During the year, the FGN introduced excise duty of N10/litre on non-alcoholic, carbonated, and sweetened beverages via the Finance Act, 2021, which has an effective date of 1 January 2022. According to the FGN, the duty was introduced in a bid to discourage excessive consumption of sugar, which could cause obesity, heart diseases, and certain types of cancer, and generate revenue that would be used for health-related and other critical expenditure. However, according to the Manufacturers Association of Nigeria (MAN), industry players believe that the introduction of the excise duty will have an overwhelming negative impact on the economy.
As in prior years, the CIM industry continues to witness several challenges such as insecurity, weak institutions, infrastructure deficits, and the impact of climate change, which have continued to negatively impact the growth of the manufacturing sector. In view of these and to foster economic prosperity, the FGN introduced the 2021 to 2025 NDP which is expected to drive the country's industrial sector. The plan seeks to ensure macroeconomic stability, promote investment in infrastructure, enhance the investment environment, and improve on socio-economic factors, amongst others.

### 2022 Outlook

In 2022, real household spending is forecasted to continue in a growth trajectory, expanding by 1.7% y-o-y. Furthermore, we expect a few factors to drive the performance of the consumer goods industry.

Firstly, we expect pressures on the food basket to persist. Some of the factors that will trigger price adjustments are industry competition, high interest rates, inflation, supply chain disruptions and insecurity. Secondly, it is expected that industry volume recovery will be sustained, especially over H1’22. This will be achieved via different strategies including further ‘sachetisation’. Thirdly, we anticipate increased CAPEX to stay connected with competition as well as new M&A announcements and capital raising activity.

The CIM sector’s outlook for 2022 will not be gloomy and it is expected to be slightly positive based on the following determinants:

- **AfCFTA**: Nigeria submitted its instrument of ratification of the AfCFTA to the Chairperson of the African Union Commission (AUC) in December 2020, ahead of the commencement of the agreement on 1 January 2021. So far, 39 African countries have deposited their instruments of ratification with the AUC.

The continental free trade area would provide access to a market of over 1.3 billion people and a combined GDP of over US$2.6 trillion. Since the AfCFTA became effective on 1 January 2021, some of the operation instruments and protocols have been successfully implemented or are actively being negotiated. For instance, the African Export-Import Bank (“Afrexim Bank”) and AfCFTA have launched the Pan-African Settlement System (“PAPSS”). PAPSS is a centralized system for processing, clearing, and settling of cross border trade and commerce payments among African countries. The System would replace the current corresponding banking for intra-African trade, especially for large-value cross-border payments.

Furthermore, member States recently concluded negotiations on the “rules of origin” to cover about 90% of goods on the tariff lines of the AU member States. This is a significant protocol that would enable businesses to clearly identify qualifying goods that would enjoy the preferential tariff regime under the Agreement. Each country is now expected to gazette the trade rules. In addition, the AfCFTA secretariat plans to publish a tariff book in 2022 so that each exporter can independently assess the trade rules applicable to their products.

Based on the progress so far, we expect that intra-African trade under the AfCFTA will accelerate in 2022 creating significant opportunities for Nigerian companies, especially in the manufacturing and agricultural sectors.

- **Fiscal and Monetary Policies**: FX crisis continues to impact the performance of manufacturing sector in Nigeria. Manufacturing is one of the broadest and globalized industries worldwide with long chains of import and export activities. The industry is particularly vulnerable to FX volatility. The FX environment in Nigeria has remained under extreme pressure due to unavailability of FX and the import-dependent nature of the economy. However, the CBN has continued to put in place measures and guidelines to deal with this over the years. While these guidelines are necessary to boost local production, they restrict importation and access to FX which creates an unbalanced demand and supply framework thereby causing inflationary pressure.

Nigeria’s annual inflation rate rose to 15.63% in December 2021 from the 15.4% recorded in November 2021 after eight (8) months of consecutive decline. It is predicted that economic activity in 2022 will be like 2021, owing to global inflationary trends linked to COVID-19, such as the lingering global supply shortage. Sustained cost-push factors, including new electricity tariffs and additional taxes; alongside legacy issues, such as increased debt service burden will continue to influence the outlook of the sector.

- **Supply and Demand Shocks**: Consumer demand, supply chain troubles and the spread of the omicron variant of the COVID-19 virus threatens to prolong rise in prices of commodities. However, with the increase in COVID-19 vaccination globally and more ease of lockdown across major economies, there has been increased consumer demand...
and a more stable supply chain. Therefore, as businesses re-imagine their supply chain framework by implementing high vertical integration and domestic diversification, these shocks are expected to drop during the year.

- **Insecurity and Infrastructural Issues:** Insecurity continues to hamper agricultural activities in the food-producing areas of the country with the consequent impact on food security. In a bid to address these concerns, the government has continued to focus on combating insecurity in the country as one of its priority areas. This is important, as failure to curb the recent tide of instability could lead to a country-wide breakdown, disruption of economic activities, destruction of oil installations and weakened investor sentiments. The 2022 budget includes CAPEX of ₦5.96tn representing about 35% of the total expenditure for the year. This is expected to boost economic growth which would be beneficial to the sector.

- **Pre-election Activities:** The national election is scheduled for February 2023. As 2022 is the penultimate year to the election, and it is expected that the gross domestic product (GDP) of the country will increase as this has been the trend from previous elections. In 2022, we would see a jump in government spending, a boost in the economy, and, hopefully some stability with the Naira. The increase in crude oil price, availability of money in circulation, increased spending by the government, would result in a favourable economy.

- **The Finance Act, 2021:** The Finance Act is supposed to drive the revenue side of the budget and not just modernize the tax system in the country. Another objective is centred around fiscal equity, by ensuring that similar sectors are treated fairly and in an equitable manner. Howbeit, the Finance Act, 2021 shows an increase in TET rate from 2% to 2.5%; considering that the existing margins for industry players are quite slim, this increment will further squeeze their margins and increase their cash tax outlay. In addition, the introduction of excise duty on sweetened drinks creates an additional burden for manufacturers. However, manufacturers are likely to pass on this cost to consumers. There has also been an introduction of capital gains tax on sale of shares with proceeds over ₦100m. This is a reversal of the exemption that has existed on gains from disposal of shares of Nigerian companies. The Finance Act, 2021 addresses significant tax and fiscal reforms, and it is believed that further implementation guidance will be provided by the tax authority.

**Conclusion**

Digital adoption has taken a quantum leap at both the organizational and industry levels. As seen during the pandemic, consumers have moved dramatically toward online channels and companies have responded in turn. There has been a rapid shift toward interacting with customers through digital channels. COVID-19 accelerated the adoption of digital technologies across all aspects of life. Some customers who had pleasant experience buying online during COVID-19 lockdown may not return to in-store buying soon. To stay competitive given the new business and economic environment, sector players require new strategies and practices. It is imperative that a sustainable and stable FX rate policy is pursued to promote greater exchange rate stability. The CBN continues to issue guidelines that would reposition the sector in this era of oil price fluctuation and the global economy slowdown that is characterized by increasing competition in the manufacturing environment. With adequate policies in place, there would be a significant boost in the long-term which will facilitate the sector’s growth and development.

AfCFTA is expected to boost Africa’s income by $450billion by 2035. The successful implementation of the AfCFTA agreement by participating countries has a huge benefit for the sector28.

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2021 Reflections

Financial services industry (FSI) performance in 2021 was resilient amidst a tough macro and tight regulatory environment. The industry achieved robust growth in GDP with 23.23% in the third quarter of 2021, following contractions of 0.46% and 2.48% in the first and second quarters, respectively. This is attributed to the rise in economic activities and increased adoption of digital banking and fintech services.

In 2021, banks recorded some positive developments in terms of loan book growth, reducing non-performing loans (NPLs) and improving capital adequacy to adapt with Basel III standards. As such, the sector expanded as credit to the private sector increased by ₦1.29 trillion in Q1 ’21 to stand at ₦41.44 trillion. Similarly, lenders were able to reduce NPL ratio to 4.85% as at the end of 2021, down from a 6-year high of 14.8% in 2017, due to regulatory forbearances granted to the sector by the apex bank at the peak of the pandemic in 2020, which allowed banks restructure as much as 41% of their total loan book. In addition, the sector’s healthy capital adequacy ratio (CAR) of 16.1% as at Q1’ 21 remains above the CBN’s minimum CAR requirement of 15%.

The insurance sector witnessed a lot of corporate actions in terms of share reconstructions, following the National Insurance Commission’s (NAICOM) intent to implement the International Financial Reporting Standard IFRS17 in January 2023 and its market development drive with a goal of achieving 10% insurance penetration and 10% insurance density by 2023. Resultantly, gross premium written grew by 18.7% in 2021 to ₦687.44billion, as several sections of the non-life insurance sub-sector rebound from a much weaker growth rate (14%) in 2020.

The capital market recorded positive returns overall. However, both the banking and insurance sectors tracked behind broad market performance, returning 3.32% and 4.54%, respectively compared to NSE-ASI’s 6.1% positive return in 2021. This was despite the slow economic growth, limited interventions by the CBN and fall in foreign portfolio investment into the country. Capital importation into...
Nigeria stood at $2.79 billion in H1 2021, a 61% year-on-year decline when compared to the $7.15 billion recorded in H1 2020. Domestic investors accounted for about 80% of transactions on the NGX in 2021.

In line with our outlook for 2021, key macro and regulatory developments impacted the sector’s performance and profitability. These included a low interest rate environment, FX management policy, prudent regulations (Basel II and III) and recurring issue with CRR debits. Interventions by the CBN to support the industry included the Naira4Dollar scheme to boost remittances as well as launching the eNaira - strengthening the CBN’s mandate for financial inclusion. As at 9M’ 21, banks reported return of average equity of 17.9%, down from 20.5% in 9M’ 20 due to depressed yields on interest earning assets and persistent CRR debits by the CBN which effectively sterilizes funds which otherwise should be earning interest.

Some of the key market developments and trends witnessed in the outgone year included: the “FinTech boom,” rise of agency banking, licensing of new players (PSB etc) and high regulatory charges. In November, the apex bank granted approvals in principle of mobile banking licenses for MTN Nigeria and Airtel Nigeria. The PSB license for telcos is a double-edged sword in that it would create competition for deposits while also allowing for partnership in the lending segment, as the PSB license does not allow telcos to originate loans. Nigerian fintech startups raised almost $800 million in 2021 - 120% higher than what FinTech’s raised in the last three years combined ($360.7 million).

Noteworthily, banks have recorded a 22% rise in AMCON charges, while other expenses such as rent and depreciation have remained flat on a year-on-year basis, even as personnel cost growth has tracked with previous years. This could pose a downside risk to profitability going forward.

2022 Business Outlook

In 2021, we posited that the Financial Services Industry has entered a “New Reality” characterized by evolving customer behaviour, persistent regulatory interjections and fintech disruptions. The industry in 2022 will continue to navigate through this changing environment, as we do not expect much to change in terms of the factors affecting the industry and trends in customer behaviour.

1. Macroeconomic developments and policy responses:

Notwithstanding the positive correlation between broad economic performance and financial services industry and given the positive outlook for the Nigerian economy, a slew of factors pose downside risks to this viewpoint. The macro realities of FX instability/availability, inflationary pressures and low yield environment are expected to impact the industry’s performance in 2022, albeit at a milder level when compared to 2021. We also expect to see an increased manifestation of default risk in 2022, which may be exacerbated by the emergence of newer variants of COVID-19.

2. Regulatory pressure and shocks:

Regulatory developments will remain the critical determinant of the overall performance of the industry in 2022. As policy authorities focus on the objectives of supporting the fiscal authorities’ expansionary policies, accelerating credit penetration into the real economy, managing liquidity in the economy, and driving industry stability and confidence of customers and investors, the regulatory trends from 2021 will persist. This includes more reactionary tactical pronouncements on CRR and LDR, refinement to FX inflows/outflows processes as well as sanctions, regulation of the emerging digital space as well as expanding development finance schemes for the banking sector. Elsewhere, we expect to see robust growth in the insurance sector in the near term due to the government’s efforts in encouraging companies to offer group life insurance to employees. The life sector has gathered momentum recently and is projected to be the driver of insurance demand in the near future. The non-life sector is highly fragmented, and it is likely that new regulations could lead to elimination of the weaker players through consolidation. Nonetheless, the non-life sector may receive some support from increased compliance with motor vehicle cover.

Furthermore, new regulations may also emerge to shape the evolution in the fintech delivery of financial services. These regulations could potentially cover areas of fintech activities that include operations, products, consumers, and partnerships. While the fintech industry has recorded a boost recently, there is still room for further expansion. According to the “State of play: Fintech in Nigeria” report released in mid-2020 by the Economist Intelligence Unit, fintech revenue will reach $543m by 2022, up from $153m in 2017. As such, it will be important for regulators to respond to evolving dynamics and ensure customer protection without stifling innovation.

3. Customer and digital transformation:

As the FSI players navigate “The New Reality” with accelerating momentum in digital adoption by...
users, customer experience and digital transformation will remain an agenda item for the executives in 2022. There has been a 42% increase in digital services users between 2018 – 2020\(^38\), coupled with a 197% increase in fintech investments since 2018.

The industry will need to increase investment in transforming the business and operating model into a connected enterprise that is adaptable and scalable.

**The 2022 FG Budget and the Financial Services Industry**

The 2022 FG Budget has mixed implications for the financial services industry with implicit opportunities and threats for the Industry. Highlighted below are some of the elements of the Budget and their implications for the Industry:

a. **Strategic Support for Key MDAs to Enhance Revenue Mobilisation and Collection:** As seen in the Finance Act, 2021, the government has initiated innovative approaches to drive revenue mobilization. This includes authorization of the FIRS to deploy third-party technology in information gathering and tax assessment. Given government’s interest in leveraging technology to increase the efficiency in tax administration, we expect to see an emergence of Fintechs willing to provide tax solutions using technology as a tool. Also, there is the likelihood of a partnership between the Federal Government and players in the fintech space. As stated in the Finance Act, the Minister of Finance, subject to approval of the National Assembly is empowered to make regulations for the imposition, administration, collection, remittance and distribution of stamp duties and electronic money transfer (EMT) levies collected between 2015 and 2019 fiscal years\(^39\). This new policy is intended to resolve the dispute that arises amongst financial institutions, FIRS, and State tax authorities on EMT remittances.

b. **Deficit Financing:** The passed budget has a deficit of approximately ₦6.3 trillion\(^40\) to be financed by borrowings from domestic and foreign sources, drawdown on secured multilateral/bilateral loans, and privatisation proceeds. If a substantial portion of the fiscal deficit is financed through the domestic debt market, this will provide a chance for financial players in the industry to invest. Although, the current low interest rate makes it easier for government to borrow as the opportunity cost of capital is reduced. However, the interplay between low interest rate and high inflation rates (15.6%\(^41\) as at December 2021) remains a risk financial players will have to consider in making investment decisions, keeping in mind that this reduces incentive to save.

Additionally, there is a potential risk of excessive domestic borrowing leading to a crowding-out effect of the private sector from an increase in government spending on economic stimulus packages and infrastructural development projects. On the other hand, government’s plan to finance its deficit through privatization of certain national assets offer banks the opportunity to facilitate asset acquisition transaction.

c. **Social Investments and Regional Interventions:** The provision of ₦7 billion for special intervention program, ₦25 billion for Youth Investment Fund and ₦24 billion\(^42\) for payment of local contractor’s debts present opportunities for on-lending services and Government-to-persons (G2P) payments and transaction support for the Banks.

d. **Funding to UBEC and TETFund:** The 2022 Budget allocation to education includes transfers to UBEC of ₦112.29 billion and transfers of ₦306.0 billion to TETFUND. This provides deposit mobilization opportunity for the public sector strategic business unit of the banking sector.

e. **Repayment of loans to Banks:** The provision to retire maturing bonds to local contractors / suppliers of ₦270.71 billion\(^43\) (1.6% of total expenditure), will boost banks’ liquidity and barring CBN’s CRR debit mop up...
exercise should bode positively for banks. Also, the funds will be used to offset accumulated arrears of contractual obligations, in turn enhancing the banking industry’s portfolio related to government contractors.

The Imperative for Financial Services Industry Players in the New Reality

Going forward into the new reality, we believe the industry must focus on the following:

i. Build strategic alliances to drive growth: The financial services industry is beginning to embrace the idea of ecosystems and for this to work, there is a need for strategic partnerships and collaborations between players in the industry (including banks and non-banks) to offer broader value propositions. Partnering will help to save cost and improve product offerings.

ii. Accelerate retail distribution footprints: More than half of Nigeria’s adult citizens are without bank accounts due to factors such as extreme poverty rate, lack of confidence in financial service providers, and excessive cost of maintenance. To improve the financial inclusion rate and drive real growth, the industry will have to focus on aggressive expansion of its agency networks to penetrate the financially excluded/unbanked segments.

iii. Expand product offerings: As customer behaviour continues to evolve, products and services offered must transform to meet up with the trends to improve customer satisfaction. It is essential that the industry focuses on providing customised suite of products (e.g., core mobile banking products and micro savings); and harness the power of financial intelligence and data analytics to provide personalized products and services for competitive advantage.

iv. Build customer-centric delivery channels: With the rising number of Fintechs in the industry, customers are not limited in terms of options and can easily switch to service providers that shape their products and services around customer experiences. Therefore, there is need to enhance customer experience across all channels (i.e., in-branch, mobile banking, online banking, POS agent, ATM experience) by addressing persistent pain points and exploring other new experiences customers are willing to try. For instance, online wealth advisory services at a lower fee than traditional advisors.

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43 Appropriation Bill, 2022 Link
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The Mining Sector ("the Sector") continued its steady growth in 2021, in terms of its contributions to the nation's GDP and to Government revenue. Contributions to GDP as at Q3 grew by about 49% from ₦341.8billion in 2020 to ₦509.7billion in the same period\(^45\), while the total contributions to Government revenue as of November 2021 (i.e., ₦3.2billion\(^46\)) exceeded the budgeted revenue for the full year by 30%.

The growth of the Sector can be attributed to a combination of factors, including sustained commodity prices during the year, improved monitoring and collection of Government revenues and the effect of currency devaluation. For instance, in November 2021, the Mines Cadastre Office reported a 68% year to date growth in revenue as of October 2021, primarily due to improved licencing administration.

The year 2021 also witnessed some landmark achievements in the Sector, including the pouring of first Gold from the Segilola Gold Mine located in Osun State, commissioning of the Fire Assay laboratory and Earthquake Monitoring Centre in Kaduna State, accreditation of four companies to produce and supply Barites to the oil and gas sector and the subsequent launch of made in Nigerian Barites, and the release of the responsible Gold mining framework and guidance document.

The challenges of the Sector continue to include the threefold scourge of illegal mining and insecurity, huge infrastructural deficit, and overall level of economic attractiveness.

\(^{45}\) Nigerian Bureau of Statistics GDP report for Q3 2021

\(^{46}\) Public Presentation of 2022 federal government of Nigeria (FGN) Budget Proposal, presented by the Honourable Minister of Finance, Budget & National Planning – Mrs. (Dr.) Zainab Shamsuna Ahmed on 5 January 2021
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The projected Federal Government revenue from the Sector is ₦2.9 billion, which represents a 10% increase over the 2021 budgeted revenue numbers of ₦2.6 billion. However, the budgeted revenue for 2022 is less than the actual revenue earned from the Sector as of November 2021 as illustrated in chart 1:

The projected total expenditure for 2022 increased marginally by 6.53%, from ₦24.5 billion in 2021 to ₦26.1 billion in 2022, driven by an 11.92% increase in the anticipated capital expenditure when compared to 2021. About 54% of the total expenditure is allocated to capital expenditure, while about 39% and 7% were allocated to personnel and overhead expenditure, respectively.

Aside from the introduction of initiatives to control and monitor of the use of explosives by players in the sector, the Government intends to continue with the initiatives from prior years as shown in the chart.

Figure 7: Comparative Revenue Analysis

Figure 8: Comparative Analysis of Expenditure

Figure 9: Analysis of Initiatives

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As shown in Fig. 9 chart, the Government has earmarked ₦209 million for the establishment of explosive motoring centres in strategic locations across the country as well as the construction of government-owned explosive magazine in the 6 geo-political zone. This initiative should improve monitoring of the use of explosives across the country for mining and quarrying activities.

Furthermore, the primary focus of the Ministry this year is on the exploration, geological enhancement, and development of some mineral commodities across the country, especially; Lithium, Tantalum, Niobium, Nickel, chromium and cobalt, Lead, Zinc, Silver & Gold, Tin, limestone, and other rare earth minerals.

The Government has doubled the budget for this initiative in 2020. The expectation is that the data from these exploration and development activities would be of sufficient quality to attract private sector investment into the development of these minerals.

While this is a commendable initiative, it is important that the contracts and processes for the exploration and development activities are transparent, and effort should be made to publish progress report(s) on the work, either on a quarterly basis or at the end of the year.

Another key initiative is the concessioning of the Ajaokuta Steel Complex, considering the 700% increase in the budget for this initiative in 2022. The budget includes proposed payments to transaction advisors totaling ₦855 million. Although the technical evaluation of the Plant by the proposed Russian partners did not happen in 2021, there are indications that this should be completed by March 202247, barring any unforeseen development. The technical and commercial evaluation of the Plant would, hopefully, include the use of local experts to retain some of the spend and know-how locally.

Other proposed initiatives during the year include the continued reclamation of abandoned mines, provision of support and extension services to artisanal miners, execution of various capital projects related to the Ministry and its Departments, construction and development of laboratory infrastructure, improving title administration, capacity building and advocacy projects in communities, strengthening regulatory framework, research and development and efforts aimed at improving site monitoring.

The budget for provision of Public Infrastructure reduced by about 44%, from ₦4.2 billion in 2021 to ₦2.3 billion in 2022. This may be indicative of gains made in the provision of the much-needed infrastructure to support mining operations in the various communities. However, it is important that this area remains a key focus area in conjunction with other relevant Ministries of Government, including works, rail, and power.

**Conclusion**

Based on the above analysis, the projected budget deficit for the Sector is ₦23.3 billion. This accounts for 0.36% of the total budget deficit of ₦6.3 trillion for 2022. Therefore, the execution of the capital projects in the Sector would significantly depend on the ability of Government to raise additional funds from borrowing and other sources.

Consequently, the Government would need to prioritize the initiatives for the year to continue to sustain growth in the sector in 2022. Also, the following initiatives would be important for the Ministry this year:

i. Improved monitoring of mining operations across the country and implementation of stricter measures around collection of Government revenues

ii. Implementation of the import substitution initiatives around Barites

iii. Conclusion of all necessary pre-commencement evaluations for Ajaokuta Steel Project

iv. Continued promotion of the formalisation of artisanal mining, especially in the precious metals mining ecosystem.

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2021 Reflections

2021 was indeed a year of recovery from the pandemic-induced downturn, for most sectors of the economy. As a result of the increased business activities following the rollout of vaccines and relaxation of lockdown protocols, the TMT sector remained active and maintained an impressive growth rate despite the tough business climate and developments during the year.

The National Bureau of Statistics (NBS)’ report indicated that the Information, Communications and Technology Sector (which comprises telecommunications and information services; publishing; motion picture, sound recording and music production and broadcasting) contributed 15.21% in Q4 of 2021, higher than the 15.06% recorded in the same quarter of 2020, and recorded annual real growth rate of 6.55%.

According to the Nigerian Communications Commission (NCC), the telecommunications sector contributed about 11.94% in Q3 of 2021, slightly higher than the 11.21% recorded in Q3 of 2020. Though the sector’s contribution to overall GDP fell by 2.48% in Q3 of 2021, the sector’s contribution to GDP in Q4 of 2021 stood at 7.99.48

The sector’s GDP growth, which has consistently outperformed Nigeria’s GDP growth, is said to be driven by an increase in data demand due to the adoption of a hybrid working system by most organizations and investment drive in the sector.

MTN Nigeria, one of the large telecommunications companies, for instance, reported a 23.6% year on year increase in revenue as at September 2021 while Airtel Africa reported a revenue growth of 27.6% year on year as of H1 2022.

Similarly, the Nigerian media and entertainment sector recorded significant recovery following the resumption in cinema activities, musical concerts, and other entertainment activities. There was also a significant increase in...
global recognition and consumption of African media content and the sector remains on an upward trajectory.

Despite government regulations and challenging business climate, the technology sector remained resilient and recorded significant investments, funding, and pre-seed deals. Some of the investments noted during the year include the acquisition of MainOne by Equinix, a California-based digital infrastructure company in December 2021, acquisition of Disha by Flutterwave amongst others. Nigerian tech start-ups raised a total of $1.7 billion and contributed the highest number of unicorns in Africa with the likes of Interswitch, Andela, OPay and Flutterwave.

The Nigeria Startup Bill (NSB), a new regulatory framework is being proposed and discussed at the National Assembly. The NSB is aimed at harnessing the potential of the country’s digital economy through co-created regulation and addressing challenges such as poor infrastructure and access to capital.

The Central Bank Digital Currency - eNaira was also launched and over 30,000 transactions have been completed using the eNaira. Although there are still uncertainties and several bottlenecks hindering the acceptance of the eNaira, it is expected to have a higher uptake in 2022.

2022 Business Outlook

With the general elections scheduled for 2023, 2022 is indeed poised to be an eventful year.

The telecommunications sector is projected to have a stable growth that will be driven by significant investments in 4G and 5G infrastructure to meet the demand for high-speed internet connectivity, diversification in financial services following the issuance of Payment Service Banks (PSB) licence and increased data usage arising from the adoption of a hybrid work culture by most organizations. MTN Nigeria and Mafab Communications Limited each paid $273.6 million to the NCC in February 2022 following their emergence as winners of the 5G Spectrum Bid auctioned by the NCC.

Most companies in the technology industry are also expected to develop more innovative solutions that will enhance the hybrid work culture and ensure an uninterrupted broadband experience because of the increased usage of cloud technology. Internet-based services such as subscription video-on-demand (SVOD), over-the-top (OTT), transactional video-on-demand (TVOD), are projected to record significant robust growth in 2022.

The CBN has indicated its plans to deploy the Unstructured Supplementary Service Data (USSD) approach to reach the most remote parts of the country without relying on network penetration or internet-enabled devices in enabling easy adoption of the eNaira.

Finally, the media and entertainment sector is expected to record increased investments and partnerships with international players. Currently, EbonyLife Studios has entered partnerships with various international brands like Universal Pictures, Westbrook Studios and Sony Pictures Television. It is expected that similar partnerships/collaborations will be recorded in other subsectors of the media and entertainment sector in 2022.
Inconsistent power supply remains one of the constraints to economic growth and sustainability in the country. The World Bank estimates that 85 million Nigerians, which represents about 43% of the country’s population, do not have access to grid electricity, thus, making Nigeria the country with the largest energy access deficit in the world. This is in addition to about US$29bn lost annually by businesses due to unreliable electricity.

Despite years of structural reforms and investments, the Nigerian power sector has continued to operate at a sub-optimal level. The Africa Energy Report in one of its recent publications on the country’s electricity sector stated that:

i. Nigeria suffers from a critical lack of installed on-grid capacity with only 13.3 gigawatts (GW) installed as of July 2021 compared to peak national demand of 28 GW.

ii. Gas supply will remain constrained despite the government’s target of 5bcf/d of gas supplied to the domestic market by 2024.

iii. Transmission capacity is expected to improve over the coming years, but an increase to 10 GW by 2025 will remain far below peak demand.

iv. There will be an estimated 31 GW supply shortfall by 2025, and despite expected improvements in gas supply and transmission capacity, just 7.7 GW of installed capacity is likely to be supplied.

v. It is unlikely that the diversified energy mix targeted in the government’s Vision 30:30:30 agenda will be achieved, and that natural gas and hydroelectricity will continue to dominate the generation subsector in the coming years.

Notwithstanding the above, there were some noteworthy achievements in 2021, which helped to improve power access. The 100-kilowatt Havenhill Solar Hybrid Mini Grid in Adebayo, Edo State and...
Budo, Oyo State, respectively was one of these. These projects were performed under the auspices of the Nigeria Electrification Project (NEP), and served to catalyse economic activities and health facilities with a multiplier and transformative effect on the host communities.

Service Based Tariff (SBT) introduced by the Nigerian Electricity Regulatory Commission (NERC) to incentivise distribution companies (DisCos) to improve the quality of power supply as a basis for tariff increases was also a notable action in 2021. The jury is still out, though, on how successful the SBT has been with consumers complaining that they may not have seen commensurate improvement despite the increase in their tariffs.

It is against this backdrop that we consider the budgetary allocation to the power sector in 2022 as well as Government’s overarching policy drive for the sector in the new year. It appears from the 2022 Budget allocation to the Ministry of Power (MoP), that transmission would be an area of focus for the Government in the new year. ₦79.746 billion has been allocated as capital expenditure which would be expended on transmission and distribution expansion programmes, completion of renewable energy interventions and rural electrification access program. This is especially key given that there is still significant generation capacity that remains stranded today due to the restrictions in transmission and distribution capacity.

The focus on renewable energy and rural electrification also underscores the fact that Government is mindful of the need to continue to improve energy access across the country using cleaner sources of energy to be able to meet its 30:30:30 agenda.

Given the financial constraints that the DisCos have had to operate under, it may be difficult to expect them to focus on grid expansion in 2020 as any little capital expenditure available to them may need to be focused on improving the existing grid capacity rather than expansion. Consequently, the role of the Rural Electrification Agency (REA) in providing funding and support for mini grids in unserved and underserved areas will continue to be key to Government’s intention to improve power supply across the country in 2022.

Notwithstanding, we have provided below, a more detailed review of how the 2022 Appropriation Act may impact the various sub-sectors in the power industry.

**2022 Business Outlook**

**Generation**

According to data released by the Nigeria Electricity Regulatory Commission (NERC), power generation in 2021 averaged 4,094.09 megawatt (MW), despite the available generation capacity being about 8,000 MW\(^1\). Average unutilized power generation has increased year-on-year, YoY, to 3,008.18 MW in 2021, from 1,030.80 MW in 2013, indicating an increase of 291 per cent in the past eight years.\(^2\) This is due to lack of, or inadequate and obsolete, transmission and distribution infrastructure.

In the 2022 Budget, the FGN has allocated ₦303 million for construction of additional 215 MW LPFO/ Gas Power station in Kaduna. Further, ₦114 billion (inclusive of multilateral loans) was allocated to Rural Electrification Agency to complete several renewable energy interventions and Rural Electrification projects nationwide to extend access to electricity for the underserved rural areas. This is in addition to the ₦1 billion for the ongoing rural electrification access program in federal universities.

It is unlikely that any new privately financed Independent Power Producer capacity will come on-grid in 2022 as the FGN turns its attention to improving transmission infrastructure and resolving the financial crisis facing the DisCos. However, there is a positive outlook for the renewable segment of the generation sector in 2022 especially with the planned investments by the FGN and developments of renewables and off-grid solutions. It is therefore plausible that the influx of additional private investment in the renewable energy will continue in 2022.

**Transmission**

Nigeria has a total wheeling capacity of 7,500 MW and over 20,000 km of transmission lines. The average operational wheeling capacity, however, currently stands at 5,300 MW, which is higher than the average operational distribution capacity of approximately 4,000 MW, though significantly below the total installed generation capacity. Thus, there is a need for investment in the transmission sub-sector to match the installed generation capacity.

Based on the 2022 Budget, the FGN has allocated ₦220.5 billion for multilateral and bilateral funding projects including Zungeru, Abuja Power Feeding and transmission access projects. Another ₦470 billion has been earmarked for the completion of the Kashimbilla Transmission project. It will be recalled that the FGN, in 2020 and 2021, approved US$120 million and ₦55 billion, respectively, for the continued construction of the Kashimbilla multipurpose dam in Taraba State to generate 40 MW and provide water to the surrounding area. The transmission project is expected to provide grid access to the rural communities, and flexibility and support to the North-East region of Nigeria when completed.

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\(^2\) Nigeria: Power Generation - Nigeria’s Average Unutilized Power Rises 291% to 3,008.1MW in 8 Years - Strafica.com
The projects earmarked in the 2022 Budget are targeted at ensuring continued nationwide improvement of the transmission infrastructure and extending grid access to additional customers as the FGN steps up on its commitment to improve Nigeria’s transmission network capacity. This will help reduce the current transmission loss by approximately 7.4% across the network, reduce the number of systems collapses and improve the offtake of power from the generating companies (GenCos). These projects are expected to consolidate on the improvements from last year and, hopefully, will make 2022 a year of sustained positive improvement for the transmission sub-sector.

**Distribution**

DisCos have continued to experience dire liquidity and profitability challenges due to poor collection, technical losses, and high indebtedness rate amongst customers. The FGN through the Nigerian Electricity Regulatory Commission has, over the years, rolled out several initiatives such as the SBT, National Mass Metering Program (NMMP) and Meter Asset Provider (MAP) Program aimed at improving the revenue position, bridging the metering gap, improving collection, and reducing energy theft. According to Power Africa Nigeria Power Sector Program - Quarterly Report FY21Q2, 636,837 meters have been installed out of which 89,267 meters were installed under the NMMP.

The FGN continues to make investment in the distribution sub-sector with the 2022 Budget providing for the allocation of ₦800 million for the completion of distribution expansion programme projects which would help improve the evacuation of stranded power from the grid. Given the capital-intensive and long-term nature of these required investments, it is important that investment efforts are finalized in 2022 to allow for Nigerians to begin to see the expected benefits in coming years.

**Conclusion**

There appears to be a positive outlook for the power sector in 2022, though it is debatable if the size of the expected leap forward in the year would lead to sustained improvement in power supply which impact would be felt by end-users. The Eligible Customer arrangement is likely to continue to drive an increase in strategic alliance between GenCos, DisCos and end users. Several States are also considering actions which may help facilitate the establishment of generation capacity within the franchise areas of the relevant DisCos, thus, bypassing the need for transmission. This arrangement is also expected to focus on improving distribution capacity within the State to be able to take advantage of the expected improved generation capacity.

There is no doubt that the power sector will continue to be under a lot of focus in 2022 and we expect that there will be several initiatives (both private and government) that will be channelled to continue to help resolve the issues in the sector.
The Nigerian Oil and Gas industry remained the major contributor to Government revenues in 2021, and it is also expected to generate a significant percentage of revenues in 2022 with 35% of the ₦10.74 trillion projected revenues to come from oil-related sources.

The oil revenue contribution appears to have increased when compared to 2021 due to improvement in daily crude oil production and soaring benchmark crude prices.

The key parameters of the 2022 Federal Government of Nigeria (FGN) Budget when compared to 2021 are as shown in the table below:

<table>
<thead>
<tr>
<th>Description</th>
<th>2021 Budget</th>
<th>2021 Budget</th>
<th>Nov’21 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil price benchmark (US$/bbl)</td>
<td>62</td>
<td>40.0</td>
<td>*79.31</td>
</tr>
<tr>
<td>Oil production (mbpd)</td>
<td>1.88</td>
<td>1.86</td>
<td>^^1.56</td>
</tr>
<tr>
<td>Exchange rate (₦/¥)</td>
<td>379</td>
<td>^3.79</td>
<td>**410.15</td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>13</td>
<td>11.95</td>
<td>+15.40</td>
</tr>
<tr>
<td>GDP growth rate (%)</td>
<td>4.2</td>
<td>***4.03</td>
<td>**4.03</td>
</tr>
</tbody>
</table>

*Source: OPEC, NNPC, CBN, FMFBNP, NBS, BOF

*Average price of Nigerian crude for up to Dec 2021.

^^Average production as at Oct 2021, inclusive of production for repayment of cash call arrears and condensates of about 77kbpd

**Exchange rate as at Nov 2021

+Inflation rate as at Nov 2021

Revised GDP growth rate 2021 is 2.5%

Q3 2021 GDP growth rate
Oil and Gas Industry and the Outlook for 2022

The impact of COVID still remains a major factor in the oil sub-sector with the discovery and spread of the Omicron variant of COVID-19 towards the latter part of 2021 and into 2022. However, the significant recovery from the pandemic achieved in 2021 looks on track to be sustained in 2022.

The US Energy Information Administration (EIA) revised its 2022 forecast for global crude oil prices upwards by more than 7% from its previous December estimate. In the January Short-Term Energy Outlook (STEO), the EIA revised up the price of Brent by 7% to an average of US$74.95 per barrel. This is now consistent with the World bank’s forecast that crude prices will average US$74 per barrel in 2022 as oil demand strengthens and reaches pre-pandemic levels.

Current projections suggest that the price of crude oil would hit $100/bbl. This should have a positive effect on the budget if production targets are met – it would significantly increase the projected revenues and therefore reduce the expected budget deficit.

The 2022 FGN’s budget was prepared in line with the government’s development priorities as articulated in the National Development Plan (NDP) 2021 – 2025. Some of the key initiatives for the oil and gas sector in the NDP are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2021 Budget</th>
<th>2021 Budget</th>
<th>Nov’21 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversify the contributions of oil and gas to Nigerian economy</td>
<td>Share of Nigeria’s GDP attributable to crude petroleum and natural gas production</td>
<td>8.60%</td>
<td>7.56 percent</td>
</tr>
<tr>
<td></td>
<td>Share of Nigeria’s GDP attributable to oil refining</td>
<td>0.10%</td>
<td>1.0 percent</td>
</tr>
<tr>
<td>Improve upstream operations</td>
<td>Increased oil production</td>
<td>2.03mbpd</td>
<td>2.38mbpd</td>
</tr>
<tr>
<td></td>
<td>Increased gas production</td>
<td>7.92bscfpd</td>
<td>15bscfpd</td>
</tr>
<tr>
<td></td>
<td>Percentage of gas channeled to power plants</td>
<td>75 percent</td>
<td>80 percent</td>
</tr>
<tr>
<td>Improve production cost-efficiency</td>
<td>Unit Operating Cost of Production ($/bbl)</td>
<td>13.3</td>
<td>10</td>
</tr>
<tr>
<td>Provide adequate security</td>
<td>Number of pipeline breaks/vandalism per year</td>
<td>1,484</td>
<td>600</td>
</tr>
</tbody>
</table>

Source: OPEC, NNPC and the NBS for baseline data; targets are projections.

The following strategies have been formulated to accomplish the targets stated above, which are to be reviewed according to the industry sub-sectors:

**Upstream sector**

1. **Projected revenue from signature bonus/Renewals**

The FGN projects revenue of ₦280.85 billion from signature bonus/renewals in 2022. This is a significant reduction from the ₦677 billion projected in the preceding year. In order to ensure value maximization for the country, transparency and maintaining a value-driven mindset should be the key considerations during the process of oil license renewals and negotiations in 2022. To shore up its revenue from oil sources and further reduce the projected deficit, FGN may also revisit the planned JV asset restructuring this year, from where it originally hoped to realize about N710b in 2019.

2. **Increase in production volumes to 1.88 mbpd**

The government intends to achieve this by ensuring the stability of the Niger Delta environment, reducing the cost of operations through cost-optimization and cost-sharing initiatives amongst Joint Venture participants. There has been relative peace in the region in recent times and it is expected that this trend will continue in 2022.

There were significant declines in production levels all through 2021 with volumes dropping as low as 1.19 mbpd in December 2021. The current production levels have, however, picked up with production around 1.40 mbpd in January 2022 which is up from 1.20 mbpd in the same period in 2021. However, with impending elections and the tendency for opportunistic sabotage, the Niger Delta is one region to watch out for as a possible political
unrest may hinder the attainment of the projected production volumes. This is in addition to OPEC production restrictions which are imposed from time to time, and which was a major limiting factor for the country in 2021.

3. Russia/Ukraine War
The invasion of Ukraine by Russia has led to several economic sanctions on the latter. The United States has banned oil imports into the US from Russia, and some European countries are seeking alternatives to Russian oil supplies. The impact of this war is that prices of oil and gas have increased sharply, with both major oil benchmarks trading at above $100 as at the time of this report. For Nigeria, this should have a positive impact on our budget projections, provided that we are able to ramp up production within the limits specified by OPEC.

Downstream sector
In 2021, the downstream sector sustained its gradual recovery from the effects of the global COVID-19 pandemic and the nation-wide lockdown measures. As vaccines became available and businesses started to open up, the industry experienced an increase in the volume of products consumed when compared to similar periods in the previous years. The price of PMS remained stable for the most part of the year at ₦165 per litre.

The country continued to import most of the petroleum products consumed due to the limited quantity refined locally as the much-anticipated Dangote refinery was yet to start production.

The issues that would shape the industry in 2022 include the following:

1. Potential increase in inventories
With the opening of the economy, a lot of economic activities including aviation have picked up and are nearing pre-pandemic levels. The industry expects to continue to maintain high consumption levels, particularly, of JET A1 (aviation fuel).

2. Completion of the Dangote refinery
The Dangote 650,000 bpd refinery has experienced several setbacks and delays throughout the project. However, it has been announced that the Company will commence processing of crude oil in the third quarter of 2022. Based on reports, the mechanical work on the refinery has been completed and the refinery is billed to commence with a processing capacity of 540,000 bpd and achieve full production capacity sometime towards the end of 2022 or the early part of 2023.

3. Back-tracking on petroleum subsidy removal
The plan to fully deregulate the market is looking more unlikely as the FGN has suspended plans to remove the subsidy on petroleum products. Consequently, in February 2022, the FGN submitted a supplementary budget for ₦2.56 trillion to fund subsidies for the year. The reason given for this suspension is to ensure that all the necessary structures to cushion the effect of subsidy removal on citizens are put in place before the removal.

4. Access to foreign exchange
Due to the heavy reliance on imports within this sector, the unavailability of FX may be a huge limiting factor for a lot of players. Historically, the CBN has provided operators in this sector access to FX at the official rate, until recently when it (CBN) started experiencing insufficient supply to meet all the demands within the sector.

Regulatory review
Petroleum Industry Act (PIA)
The Petroleum Industry Act (Act), 2021 was finally signed into law on 16 August 2021. This has set in motion various changes to the fiscal landscape, as its introduction has generated many considerations for the entire oil and gas industry. The various provisions and changes cut across the following:

- Governance
- Administration
- Petroleum Host Communities Development
- Fiscal provisions

Although the PIA is not a perfect law, it has ignited a significant change in the taxation of oil and gas upstream operation, which has remained somewhat stagnant for over five decades. Overall, the PIA should help to transform the Nigerian Oil and Gas Industry given the myriad of challenges it seeks to address – for example, encourage investment, improved focus on midstream operations, improved funding for JV operations, environmental remediation and abandonment, and transfer of effective control to host communities in terms of project selection, execution and ownership etc.

You can access our newsletter on the PIA via the following link [PIA newsletter].

Conclusion
The Nigerian Oil and Gas Industry, and by extension the Nigerian economy, remains largely volatile due to its susceptibility to uncertainties around oil price and production, currency fluctuations, CBN FX policies and other regulations. These have stifled investment in the industry over the last few years and it is yet to be seen if any drastic changes will occur to turn things around within the sector in 2022. It is also too early in the day to assess the potential positive impact that the implementation of the PIA would have on the industry. A combination of political will, stability in the Niger Delta, and favourable FX and fiscal policies are the key ingredients to ensure that Nigeria can make the most of the opportunities in the sector.
8.0 Looking forward: 2023 Budget
Looking Forward: 2023 Budget

If the COVID-19 pandemic is brought under control and the government can achieve its target to end the pandemic in 202253, the 2023 Budget is expected to focus on expansionary policies that would help sustain economic gains projected in the 2022 fiscal year. However, the uncertainties around the forthcoming 2023 presidential election are expected to impact the 2023 Budget. It is important to state that a stable political environment is key to sustaining economic growth in any country; therefore, efforts will be required from the government to ensure stability is maintained during this crucial period in the country.

Looking forward, we have outlined some crucial factors expected to shape the details in the 2023 Budget. They include: the direction of budget assumptions, the need for the current government to leave behind legacies, debt service to revenue, socio-economic challenges, and the implementation of major sectorial reforms. Riding on the strong global oil demand outlook by OPEC54, the benchmark for oil production volume is expected to increase. The assumptions on oil price and production are expected to be higher, riding on the stronger recovery of global economy in 2022 which could increase oil demand and oil prices.

The wide gap between budgeted government revenue and expenditure has remained a major challenge. In 2020, Nigeria had a deficit of ₦4.9 trillion and ₦5.6 trillion in 202155. This status quo is expected to remain, and fiscal deficit is projected to widen above budget specifically because a significant percentage of government expenditure will be directed towards completing capital projects by the current administration and funding the 2023 general election.

Since Q1 2021, economic activities have adjusted gradually to pre-pandemic levels and the non-oil sectors have been a major driver of this outcome. In 2021, agricultural sector grew by 2.1%56, likewise, the ICT sector contributed 12.6% to GDP. Given the rise in inflow of foreign capital into the ICT sector, and the government’s continued effort to diversify revenue base, the contribution of non-oil sectors to government revenue is projected to rise.

Due to the rising debt profile of the country, debt service to revenue ratio is expected to further increase in 2023. As of 30 September 2021, total public debt stood at ₦38 trillion with domestic debt accounting for 59% of the total value57. We expect intensification of efforts from the government and the DMO towards providing a better approach for funding the country’s fiscal deficit and achieving debt sustainability.

COVID-19 induced recession has negatively impacted household income and welfare. Thus, socio-economic issues including extreme poverty and unemployment rate are still expected to persist in the short to medium term. We expect the government to still channel a considerable proportion of its spending on job creation and poverty alleviation schemes to increase labour productivity and economic growth.

Spending interventions geared towards tackling insurgency and terrorism, managing herders’ crisis, curbing activities of bandits, and ensuring that the internal security of the country is not compromised will remain prominent in the 2023 budget.

The drive for the current government to have a good record of accomplishment and leave behind tangible legacies through completion of major infrastructural projects before the end of its tenure is likely to shape the capital expenditure allocation in the 2023 budget.

Given the factors above, the outlook for the 2023 Budget is:

- Fiscal deficit is expected to widen above budget given the spending pressures associated with elections. A sizable percentage of the fiscal deficit is expected to be financed internally through medium and long-term debt instruments.
- Potential increase in revenue from non-oil sectors as well as broadening of the country’s tax base, following the launch of the medium-term National Development Plan to accelerate economic growth and continued implementation of tax compliance policy.
- Likely rise in the capital expenditure component of the Budget with significant allocations geared at completing infrastructural projects across the nation and funding the armed forces to maintain internal peace and security, especially during elections.
- Increase in oil revenue riding on OPEC’s projection for global oil demand to keep rising to a level of 104.5m/b by 202358 and the projected kick off the Dangote Oil Refinery.
- Debt service is expected to remain a challenge in the 2023 Budget as the government is likely to increase its domestic and external borrowing to fund major capital projects.
- Although the CBN plans to unify the I&EFX market rate and build external reserve to narrow the exchange rate gap59, the FX market still lacks enough flexibility to withstand external shock. Therefore, we anticipate further depreciation of the Naira, and expect a potential increase in the exchange rate benchmark.

57. Debt Management Office
59. www.budgetoffice.gov.ng/2021-2023-MTEF-FSP (Page 41)
We recognise the contributions of the KPMG Budget Newsletter team and other staff members.

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