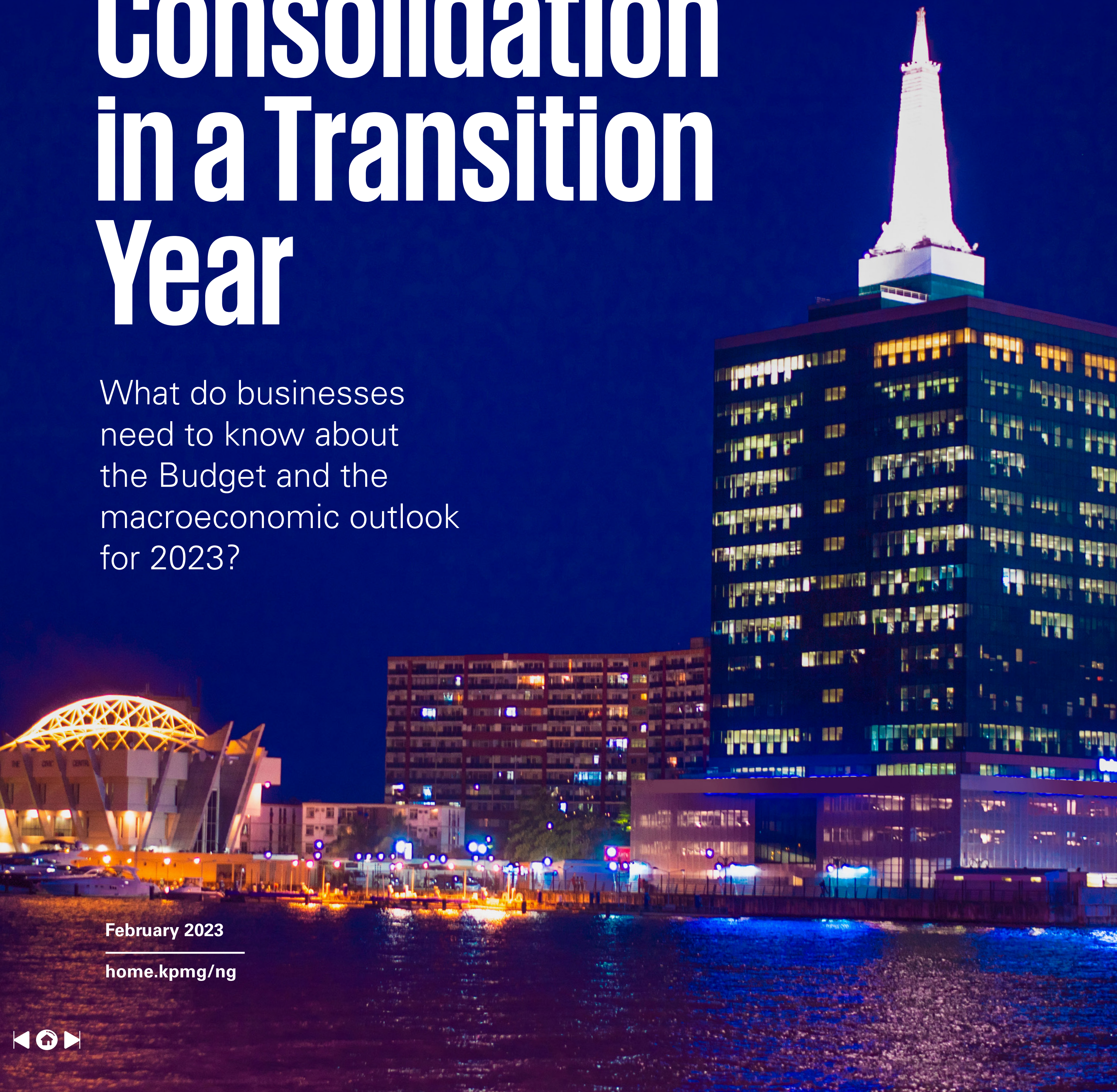
2023 FEDERAL GOVERNMENT OF NIGERIA BUDGET

Achieving Fiscal Consolidation in a Transition Year

What do businesses need to know about the Budget and the macroeconomic outlook for 2023?



February 2023

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Outline

1.0 Foreword

Nigeria continued on the path of economic recovery in 2022 with an overall real Gross Domestic Product (GDP) growth of 3.1%. This came on the heels of the country's recovery from a pandemic-induced recession in 2020 with a GDP growth of 3.4% in 2021. However, indices show that the growth recorded in 2022 was not broad-based, as the country's economic expansion was solely driven by the non-oil sector, which contributed 94.33% to the nation's real GDP and grew by roughly 5%.

The oil sector continued to underperform in 2022, as it contributed only 5.67% to real GDP during the period and contracted by almost 20%. The sector's dismal performance, despite the surge in crude oil prices in 2022, was largely due to the high incidence of crude oil theft and pipeline vandalism in the country during the year. These issues resulted in the country recording an average crude oil production of 1.2 million barrels per day (mbpd), 25% lower than the budgeted crude oil production target of 1.6 mbpd.

Expectedly, the decline in crude oil production volumes had negative budgetary implications, as the Federal Government of Nigeria (FGN) fell 64.3% short of its prorated 2022 oil revenue projection of ₦1.643 trillion for the period ended November 2022.

It was against this backdrop that the National Assembly passed the Appropriation Bill, 2023 (aka 2023 FGN Budget) for presidential assent. The Bill, which seeks to appropriate a total expenditure of ₦21.83 trillion, was signed into law on 3 January 2023, thereby sustaining the restoration of a predictable January to December budget cycle.

The 2023 FGN Budget, themed "Budget of Fiscal Consolidation and Transition", is designed to achieve the strategic objectives of the 2021-2025 National Development Plan (NDP). These include macroeconomic stability, human capital development, food security, improved business environment, energy sufficiency, improved transport infrastructure, and increased industrialisation focused on small and medium scale enterprises.

The FGN adopted conservative crude oil production and price benchmarks of 1.69 mbpd and US$75 per barrel, respectively, in the Budget, and has projected a GDP growth rate of 3.75% and an average foreign exchange rate of ₦435.57/US$. The FGN also expects to generate 78% of its revenue from non-oil sources and 22% from oil-related sources in 2023.

With a projected fiscal deficit of ₦11.34 trillion in the 2023 FGN Budget, there is a clear need for the government to increase revenue mobilisation. The FGN plans to achieve this partly through the enactment of a Finance Bill, 2022. The Bill, which is yet to receive presidential assent, aims to phase out tax incentives for mature industries, tax gains from the disposal of digital assets such as cryptocurrencies, and align petroleum taxation with the Petroleum Industry Act, 2021 amongst other key policy focus areas.

The FGN's focus on fiscal consolidation and transition is especially important, considering that 2023 is an election year. Thus, it is crucial for the incumbent and succeeding governments to tackle the fiscal, macroeconomic, and structural issues constraining the country's economic development and prosperity.

This publication reviews Nigeria's economic performance in 2022 and the FGN's budget for 2023, and discusses the potential impact of the budget allocations, policy changes and other relevant developments on various sectors of the Nigerian economy.

Tola Adeyemi
Senior Partner, KPMG Nigeria
Chairman, KPMG West Africa

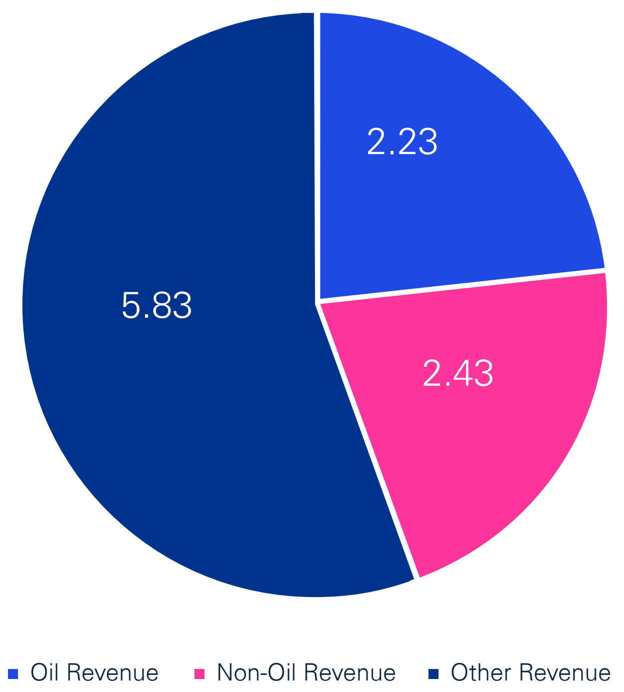
2.0 2023 Budget Financials

Budget Financials

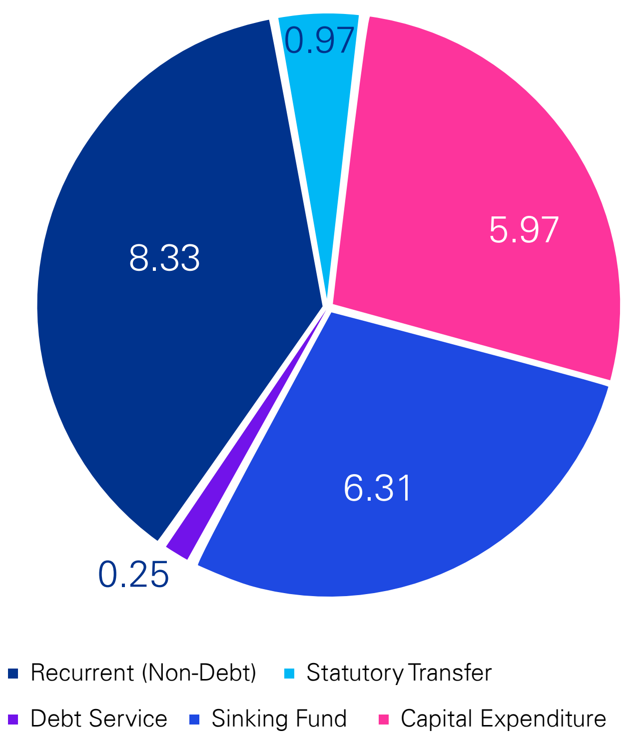
Baseline Assumptions	**2022 Amended Budget + Supplementary Budget**	**2023 Approved Budget**	**Percentage Change**
Benchmark oil price	$73 per barrel	$75 per barrel	2.74%
Oil production volume (mbpd)	1.6 million	1.69 million	5.62%
Average exchange rate	₦410.15:1	₦435.57:1	6.20%
Inflation (%)	16.11%	17.16%	6.52%
GDP growth rate (%)	3.55%	3.75%	5.63%
Expenditure Framework	**(₦) billion**	**(₦) billion**	**Percentage Change**
Statutory transfer	817.70	967.49	18.32%
Debt service	3,685.38	6,309.87	71.21%
Sinking fund	292.71	247.73	-15.37%
Recurrent (Non-Debt):	7,108.62	8,329.37	17.17%
Personnel Costs (MDAs)	3,717.43	4,103.59	10.39%
Personnel Costs (GOEs)	617.72	912.32	47.69%
Overheads (MDAs)	376.38	443.28	17.77%
Overheads (GOEs)	451.00	671.40	48.87%
Pension, Gratuities and Retirees Benefits	577.86	854.81	47.93%
Other Service Wide Votes (including GAVI/Immunization)	937.92	1,066.55	13.71%
Presidential Amnesty Programme	65.00	65.00	0.00%
TETFUND - Recurrent	15.30	12.41	-18.89%
Special Interventions (Recurrent)	350.00	200.00	-42.86%
Aggregate Capital Expenditure	**6,681.81**	**6,445.85**	**-3.53%**
Capital Supplementation	437.43	779.11	78.11%
Capital Expenditure in Statutory Transfers	446.98	473.12	5.85%
Special Intervention Programme (Capital) - Family Home Fund	7.00	7.00	0.00%
Amount Available for MDAs' Capital Expenditure	3,536.48	2,287.59	-35.31%
GOEs Capital Expenditure	647.08	835.39	29.10%
TETFUND Capital Expenditure	290.70	235.85	-18.87%
Grants and Donor-funded Projects	63.38	43.03	-32.11%
Multilateral/Bilateral Loan-funded Projects	1,155.82	1,771.40	53.26%
FGN Share of Oil Price Royalty Transferred to NSIA	96.94	13.37	-86.21%
Capital Expenditure (Exclusive of Transfers)	6,234.83	5,972.73	-4.20%
Total FGN Budget (Excluding GOEs & Project-tied Loans)	15,267.61	17,636.67	15.52%
Total FGN Budget (Including GOEs & Project-tied Loans)	18,139.24	21,827.19	20.33%

Amount Available for FGN Budget	(₦) billion	(₦) billion	Percentage Change
Share of Oil Revenue	2,190.37	2,229.64	2%
Share of Dividend:	195.72	81.79	-58%
NLNG	187.40	74.56	-60%
Bank of Industry	8.32	7.23	-13%
Share of Minerals & Mining	2.92	3.64	25%
Share of Non-Oil:	2,132.08	2,433.15	14%
Share of CIT	909.30	933.28	3%
Share of VAT	316.69	383.09	21%
Share of Customs	834.12	949.59	14%
Share of Federation Acct. Levies	71.97	167.19	132%
Share of Electronic Money Transfer Levy	29.37	19.09	-35%
Share of oil Price Royalty	96.94	13.37	-86%
Revenue from GOEs	3,806.60	3,873.42	2%
GOEs' Operating Surplus (80% of which is captured in Independent Revenue)	(2,078.21)	(1,454.30)	-30%
Independent Revenue	2,616.22	2,615.61	0%
Draw-down from Special Levies Accounts	300.00	300.00	0%
Signature Bonus / Renewals / Early Renewals	280.86	57.05	-80%
Domestic Recoveries + Assets + Fines	26.93	27.90	4%
Grants and Donor Funding	63.38	43.03	-32%
Education Tax (TETFUND)	306.00	248.27	-19%
Amount available for FGN Budget (including GOEs)	**9,969.17**	**10,491.65**	**5%**
Fiscal Balance			
Fiscal Deficit (excluding GOEs and Project-tied Loans)	7,026.83	9,564.13	36%
Fiscal Deficit (Including GOEs and Project-tied Loans)	8,170.07	11,335.54	39%
GDP	184,381.98	225,507.30	22%
Deficit/GDP (excluding GOEs and Project-tied Loans)	3.81%	4.24%	11%
Deficit/GDP (including Project-tied Loans)	4.43%	5.03%	14%

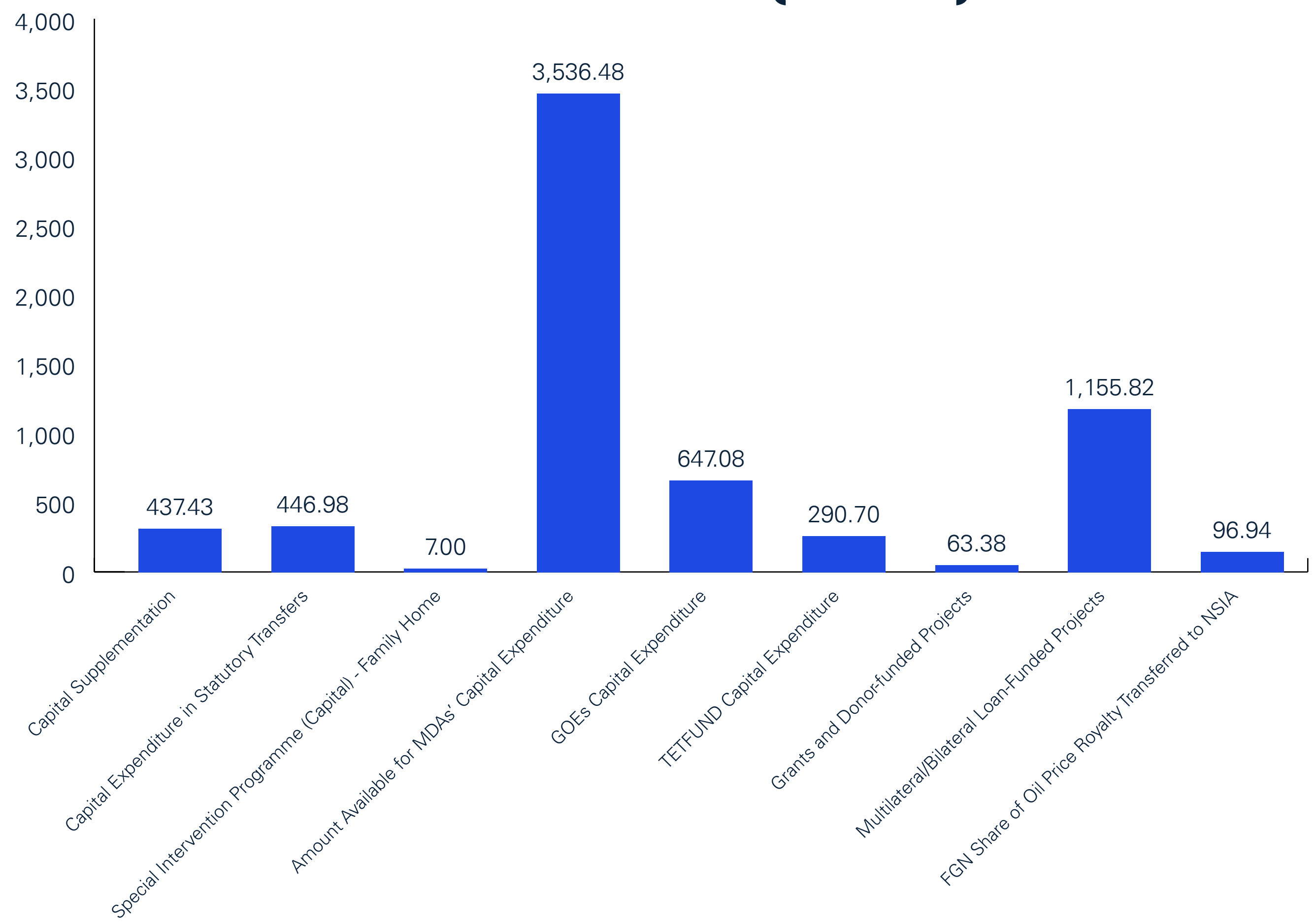
Approved Revenue Sources (₦' trillion)

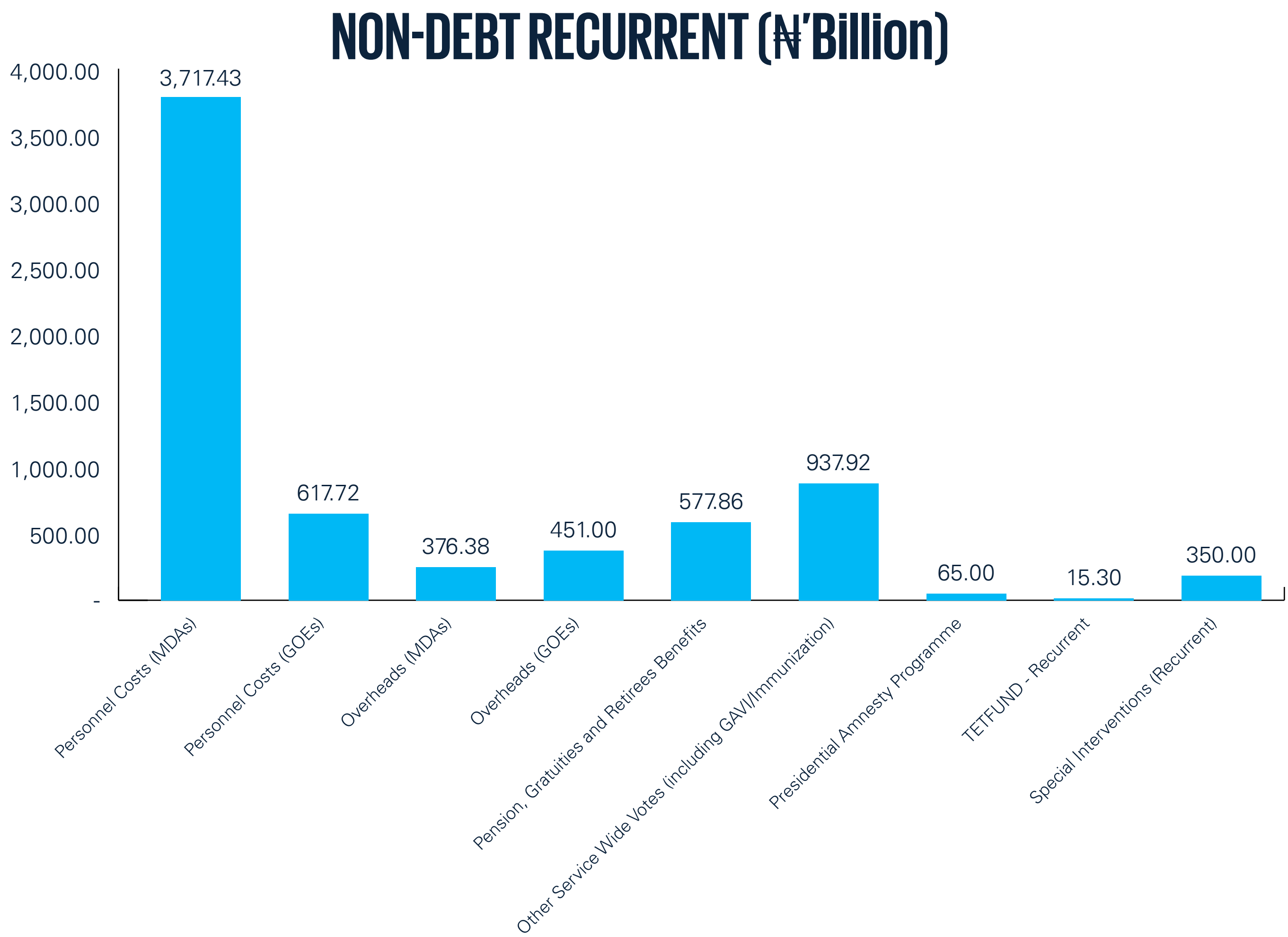


Approved Expenditure (₦' trillion)



CAPITAL EXPENDITURE (₦'Billion)

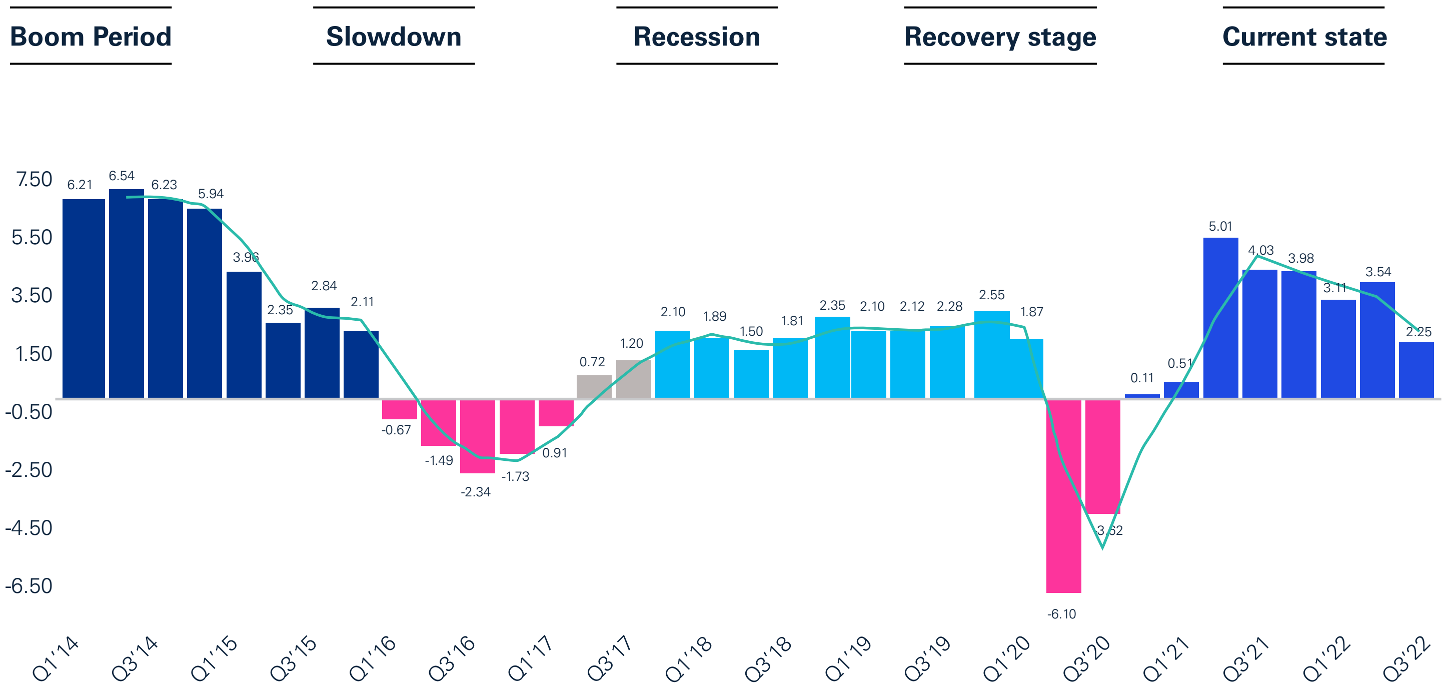



NON-DEBT RECURRENT (₦'Billion)
4,000.00
3,500.00
3,000.00
2,500.00
2,000.00
1,500.00
1,000.00
500.00
-
3,717.43
617.72
376.38
451.00
577.86
937.92
65.00
15.30
350.00
Personnel Costs (MDAs)
Personnel Costs (GOEs)
Overheads (MDAs)
Overheads (GOEs)
Pension, Gratuities and Retirees Benefits
Other Service Wide Votes (including GAVI/Immunization)
Presidential Amnesty Programme
TETFUND - Recurrent
Special Interventions (Recurrent)

3.0 2023 Budget and Macroeconomic Analysis

Nigeria's real GDP grew by 3.1% (year-on-year) in 2022, 110 percentage points lower than the 4.2% GDP growth rate target in the 2022 FGN Budget, and 30 percentage points lower than the country's real GDP growth rate of 3.4% in 2021. The growth recorded in 2022 was solely driven by the non-oil sector, which contributed 94.33% to the nation's real GDP and grew by roughly 5%. The oil sector, on the other hand, contributed a paltry 5.67% to real GDP, and contracted by almost 20%.

Based on the NBS' quarterly GDP statistics, Nigeria's real GDP grew by 3.11% and 3.54%, respectively, in the first and second quarters of 2022, before slowing down to 2.25% in Q3 2022 and then accelerating to 3.52% in the last quarter of the year.



Source: NBS and KPMG Analysis

The 2023 FGN Budget reflects Nigeria's ambition to achieve a real GDP growth rate of 3.75% in 2023. The ₦21.83 trillion budget, which is themed "Budget of Fiscal Consolidation and Transition", is predicated on the following other key assumptions:

- Average crude oil production of 1.69 mbpd
- Average crude oil price of $75/b
- Average exchange rate of ₦435.57/Us$1
- Average inflation rate of 17.16%.

We have highlighted below, some of the external and internal factors that are likely to affect the budget assumptions and performance and the Nigerian economy in general:

1. External Factors (Global Pressure Points)

i. Lingering Russia-Ukraine War

The post-COVID recovery of countries around the world suffered a setback following Russia's invasion of Ukraine in February 2022. The invasion, which was a major escalation of the Russo-Ukrainian war that started in 2014, has slowed down the global economic recovery process and is expected to have far-reaching consequences for the next couple of years due to the critical role of both countries in the global supply chain of food, energy, fertiliser, and base metals.

In view of this, global growth was forecast by the International Monetary Fund (IMF) in its April 2022 report, to slow down from an estimated 6.1% in 2021 to 3.6% in 2022 and 2023[1].

This development is likely to continue to negatively impact Nigeria's economic growth in 2023, as the country's population continues to grow at 3% per annum. For instance, while the war triggered an appreciable increase in the price of crude oil in the international market in 2022 relative to the previous two years, Nigeria failed to benefit from the increase in oil price. The country's daily crude oil production, which averaged 1.2 mbpd[2] in 2022, remained below its Organisation of the Petroleum Exporting Countries (OPEC) quota (of between 1.68 and 1.83 mbpd) throughout the year due to insecurity, oil theft, and vandalization of oil pipelines in the Niger-Delta region. However, the nation's cost of subsidizing petroleum products snowballed.

[1] *https://www.imf.org/en/Publications/WEO/Issues/2022/04/19/world-economic-outlook-april-2022*
[2] *OPEC Monthly Oil Market Report for January 2023*

As the war lingers, we expect its impact to continue to reverberate across Nigeria, as both Russia and Ukraine are major sources of commodities such as muriate of potash (potassium), phosphates used in blending NPK fertilizer, fish, wheat, iron, and steel to Nigeria. The country's ability to boost its crude oil exports and embark on backward integration for oil through midstream refining into nine major derivatives, petrochemicals (converting ammonium nitrate gas into polypropylene and polyethylene crystals) in 2023 would, therefore, be critical to its economic growth and the implementation of the 2023 Budget.

ii. Curtailment of Covid-19

The resurgence of Covid-19 in China in the last quarter of 2022, and the surge in Covid-19 infections and deaths in the country in January 2023, sent shock waves to various countries around the world, including Nigeria, on the risk of another large-scale Covid-19 outbreak in 2023. Thankfully, this risk now appears to be low, going by recent reports of China's decisive victory in fighting the virus[3].

On the back of China's faster-than-expected COVID-19 recovery and increased economic activity, the country's growth forecast was recently revised upwards by Fitch Ratings from 4.1% to 5.0%[4].

Given China's critical role in the global commodities supply chain and the global economy at large, and its status as one of Nigeria's major trading partners, the country's projected economic expansion is a positive development for the world's economy and should support Nigeria's economic growth ambition.

iii. Climate Change and Energy Transition

The shift from fossil fuels to renewable energy continues to progress globally, with countries all over the world agreeing to convert a major part of their energy sources to renewable sources and achieve net-zero emission by 2050 or 2060[5]. Major international oil companies (IOCs) and many other multinational enterprises have also committed to the transition in their operational strategies.

In 2022, the FGN announced that it had lost its most-valued crude oil customers[6], with others gradually reducing their import volumes. This situation has been exacerbated by issues relating to insecurity and crude oil theft, which have resulted in IOCs' continued push for the divestment of their onshore investments. For instance, Sinopec-owned Addax recently divested four major oil mining blocs (i.e., Oil Mining Leases 123, 124, 126, and 137) after 24 years of operating them.

These developments raise concerns about the oil revenue projections in the 2023 FGN Budget from a crude oil export standpoint. However, we expect the potential negative impact of lower-than-expected crude oil exports on oil revenue projections to be cushioned by oil price, as the World Bank (WB), IMF and Economic Intelligence Unit have projected prices of $92/b, $79/b, and $85/b, respectively. This translates to an average price of $85/b, which is about 14% higher than the price benchmark of $75/b in the 2023 Budget.

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[3] *http://www.chinadaily.com.cn/a/202302/17/WS63ee626aa31057c47ebaf3fd.html*
[4] *https://www.reuters.com/world/china/fitch-raises-chinas-growth-forecast-5-2023-2023-02-08/*
[5] *https://sustainabilitymag.com/net-zero/top-10-nations-that-are-leading-the-renewable-energy-charge-countries-emissions*
[6] *https://punchng.com/weve-lost-our-most-valued-crude-oil-customers-fg/*

iv. Global Inflation and Interest Rates

Another key factor that will impact the implementation of the 2023 FGN Budget is the global inflation attributable to the impact of the Russia-Ukraine war and the lingering effects of the COVID-19 pandemic on world economies. The uptick in inflation, which started with food and energy prices, has spread to virtually all other sectors of many countries' economies.

According to the IMF, the headline inflation of emerging market and developing countries is expected to rise from 5.9% in 2021 to 9.9% in 2022, and moderate to 8.1% in 2023, which is still relatively high compared to pre-pandemic levels.

In a bid to control inflation, countries around the world have adopted monetary tightening measures which include high interest rates on borrowings. As a country with a relatively high public debt profile, this raises serious concerns regarding Nigeria's debt management. While the Debt Management Office has maintained that the country's public debt is at a moderate level, the rising interest rates occasioned by higher inflation rates may aggravate Nigeria's debt servicing and refinancing position and put the nation's debt sustainability in 2023 into question.

Besides, the increase in interest rates by developed countries may continue to negatively affect the level of capital inflows into Nigeria in 2023 and translate into scarcer foreign exchange (FX). This is especially so considering that foreign investors continue to grapple with issues relating to negative real return on investment and challenges with FX repatriation from Nigeria.

2. Internal Factors

i. Nigeria's 2023 General Elections

Nigeria held its Presidential and National Assembly elections on 25 February 2023 and is scheduled to hold its Gubernatorial and State Houses of Assembly elections in March 2023. We expect the outcome of the elections to significantly shape the political and economic landscape of the country at different levels during the year. For instance, the increased spending by the government and various political parties and actors will impact inflation rate, which increased from 21.34% in December 2022 to 21.82% in January 2023[7].

The inflow of new investments into the country in Q1 2023 is expected to be negatively affected by the general elections, due to the likely impact of pre- and post-election uncertainties and a lack of forward guidance. This is likely to extend to Q2 2023 as investors may adopt a wait-and-see attitude.

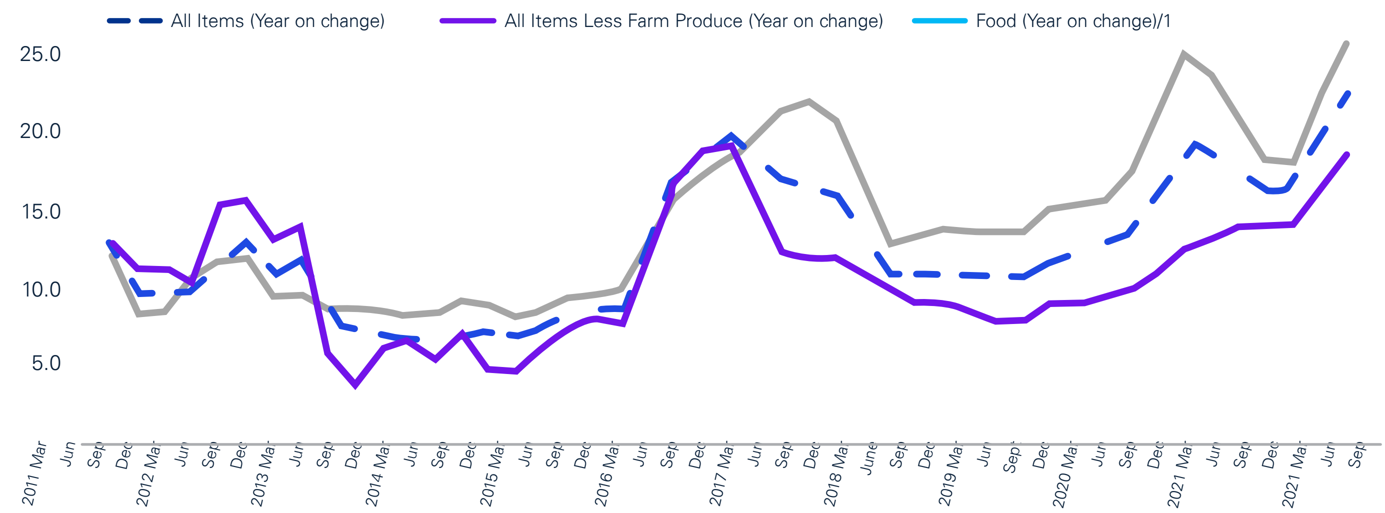
Thus, Nigeria's socio-political stability after the general elections, and the new federal government's ability to hit the ground running, set a clear policy direction and undertake bold reforms, will have a critical impact on the country's macroeconomic indices and budget performance in 2023.

ii. Central Bank of Nigeria (CBN)'s Monetary Policy

In response to rising global and local macroeconomic pressures, the CBN has adopted several monetary tightening policies to curb inflation pressure, regulate capital flows, and sustain the FX rate in Nigeria. In May 2022, the CBN's Monetary Policy Committee (MPC) raised the Monetary Policy Rate (MPR) from 11.5% to 13%[8] to curtail record-high inflation in the country. Since then, the rate has been increased to 14% in July 2022, 15.5% in September 2022, 16.5% in November 2022, and 17.5% in February 2023.

The MPC had also raised commercial banks' Cash Reserve Ratio (CRR) to 32.50% in November 2022, up from 27.5% at the beginning of the year, in a bid to reduce liquidity in the local financial market and discourage currency speculation.

Despite the consecutive hikes in the MPR, the uptrend in inflation has continued almost unabated, with the headline inflation rate hitting a 17-year high of 21.47% in November 2022 before easing to 21.34% in December 2022, and then accelerating to 21.82% in January 2023. Therefore, the 2023 FGN Budget inflation benchmark of 17.16% appears to be overly optimistic in light of global and local realities (i.e., lingering Russo-Ukrainian war, expected petrol subsidy removal, impact of the flooding of Nigeria's food basket on food prices, etc.).



Source: NBS and KPMG Analysis

[7] https://www.cbn.gov.ng/rates/inflrates.asp
[8] https://www.cbn.gov.ng/MonetaryPolicy/decisions.asp

Further, the exchange rate policy environment is still confronted with critical issues that must be resolved for the country to achieve a unified exchange rate and stand any chance of realising and sustaining the 2023 Budget benchmark exchange rate of ₦435.57/US$1.

In February 2022, the CBN introduced a new scheme – the "Race to US$200 billion in Foreign Exchange Repatriation (RT200 FX) Programme" – as a measure to address the country's FX challenges[9]. The RT200 FX Programme is expected to generate US$200 billion in FX earnings from non-oil export proceeds over a three- to five-year period. A critical anchor of the Programme is the Non-Oil Export Proceeds Repatriation Rebate Scheme which is designed to incentivize exporters in the Non-Oil export sector to repatriate and sell their export proceeds in the official FX market by offering an additional ₦65 for every US$1 repatriated and sold at the Investors and Exporters' Window to Authorised Dealer Banks for third-party use.

The CBN recently indicated that the RT200 FX Programme resulted in the repatriation of about US$5 billion (which the apex bank spent ₦81 billion to incentivize) non-oil export proceeds to Nigeria as of November 2022, compared to the US$3.19 billion non-oil export proceeds recorded in 2021[10]. However, there are questions on whether the policy initiative really addresses the fundamental issues plaguing Nigeria's FX regime and would fix the fragmentation of the country's FX rate system.

Notwithstanding, it has become imperative for the CBN to harmonise the FX rates in Nigeria as the huge disparity (of about ₦300 as of February 2023) between the official and parallel markets will continue to fuel currency speculation and scarcity. One of the fundamental issues causing this distortion is the huge volume of legitimate FX demand that is currently not valid for FX in the official FX market, and for which businesses are constrained to source FX in the parallel market.

Given the above, the 2023 Budget benchmark of ₦435.57/US$1 looks unrealistic, as it is unlikely that the upward trend of the official exchange rate (which is currently approaching ₦465/US$1) will reverse unless the country records a significant increase in the supply side of the FX market through the accretion of petrodollars, diaspora remittances, non-oil export proceeds (trade finance), non-speculative foreign direct investment and speculative foreign portfolio investment (which currently stands at 11% from highs of 53%). Further, the country would need to adopt the IMF Article IV recommendation to collapse all FX intermediation windows at the CBN and change the model from a fixed spread to managed float as a tool to maintain only one spot rate, and strategically manage FX demand by implementing the backward integration programmes in key sectors where the economy has comparative advantage

iii. Increased Tax Revenue

The FGN intends to generate about ₦8.19 trillion (i.e., 78%) of the total budgeted 2023 revenue of ₦10.49 trillion from non-oil sources. This projected non-oil revenue is 11% higher than the FGN's ₦7.40 trillion target in 2022, indicating government's intention to continue to diversify its sources of revenue and be less dependent on oil revenue, royalties, and signature bonuses.

We expect that this trend will continue, and result in an increased drive to generate revenue from tax, government-owned enterprises (GOEs) and other non-oil sources.

Based on the 2022 Performance Update Report published by the Federal Inland Revenue Services (FIRS or "the Service")[11] in January 2023, the Service collected a total tax revenue of ₦10.1 trillion in 2022. This tax revenue collection, which is the highest in the FIRS' history, comprised oil taxes of ₦4.09 trillion and non-oil taxes totalling ₦5.96 trillion. The collection is 58% above the total tax collection of ₦6.4 trillion in 2021 and represents 96.7% of the Service's ₦10.44 target for 2022.

The FIRS' tax collection – which was shared between the Federal, State and Local Governments – contributed significantly to the FGN's actual revenue in 2022, as the FGN's share of non-oil taxes exceeded its budget, as shown in the table below:

[9] *CBN's Operating Guidelines for RT200 Non-oil Export Proceeds Repatriation Rebate Scheme*
[10] *https://www.thisdaylive.com/index.php/2022/11/30/in-face-of-oil-theft-cbns-rt200-initiative-records-4-987bn-inflow/*
[11] *https://businessday.ng/news/article/firs-received-n10-1trn-record-highest-remittance-in-2022/*

	FISCAL ITEMS	2022 Amended Budget	2022 Pro Rata (Jan - Nov)	2022 Actuals (Jan - Nov)	Variance	
		(₦) billion	(₦) billion	(₦) billion	(₦) billion	%
S/N	**AGGREGATE FEDERAL GOVERNMENT REVENUE**	**9,969.17**	**7,476.88**	**6,497.98**	**(978.90)**	**-13.1%**
	FEDERAL RETAINED REVENUES (excl. GOEs)	**8,240.78**	**6,180.58**	**5,858.71**	**(321.87)**	**-5.2%**
A						
1	Oil Revenue	2,190.37	1,642.78	586.71	(1,056.07)	-64.3%
2	Share of Dividend (NLNG and BOI)	195.72	146.79	101.70	(45.09)	-30.7%
3	Minerals & Mining Revenue	2.92	2.19	3.99	1.81	82.6%
4	Non-Oil Revenue:	**2,258.39**	**1,693**	**2,088.24**	**394.44**	**23.3%**
i	*CIT*	909.30	681.98	1,081.76	399.78	58.6%
ii	*VAT*	316.69	237.52	295.21	57.69	24.3%
iii	*Customs Revenues*	834.12	625.59	639.65	14.06	2.2%
iv	*Federation Account Levies*	71.97	53.98	55.34	1.36	2.5%
v	Share of Electronic Money Transfer Levy (EMTL)	29.37	22.03	16.28	(5.75)	-26.1%
vi	Share of Oil Price Royalty	96.94	72.71	38.36	(72.71)	-100.0%
B		**5,321.77**	**3,991.33**	**3,717.34**	**(273.99)**	**-6.9%**
1	FGN Independent Revenue	2,616.22	1,962.16	1,318.37	(643.80)	-32.8%
2	FGN Drawdowns from Special Accounts/Levies	300.00	225.00	175.79	(49.21)	-21.9%
3	Signature Bonus/Renewals/Early Renewals	280.86	210.64	280.86	70.21	33.3%
4	Domestic Recoveries + Assets + Fines	26.93	20.20	7.15	(13.05)	-64.6%
5	Grants and Donors Funding	63.38	47.53	974.49	926.96	1950.3%
6	Education Tax (TETFUND)	306.00	229.50	321.42	91.92	40.1%
7	GOEs' Retained Revenue	1,728.39	1,296.29	639.27	(657.02)	-50.7%

On the back of its stellar performance in 2022, the FIRS has set a tax collection target of ₦12 trillion for 2023. We, therefore, expect the Service to intensify its tax collection efforts during the year by continuing its tax monitoring, audit, and investigation drive, leveraging technology to improve tax administration, expanding the frontiers for the taxation of the digital economy and the informal sector, and being more bullish in managing tax controversies at the Tax Appeal Tribunal and the courts.

We also expect the FGN to push through with its planned enactment of the Finance Bill, 2022, which has been passed by the National Assembly but is undergoing some reviews before being assented to by the President. The Bill, amongst other key policy focus areas, aims to phase out tax incentives for mature industries, tax gains from the disposal of digital assets such as cryptocurrencies, align petroleum taxation with the Petroleum Industry Act, 2021, and may include provisions for an increase of the Tertiary Education Tax rate from the current 2.5% rate to 3%.

iv. Redesign of Naira Notes

The CBN, with the approval of the President, His Excellency, Muhammadu Buhari, GCFR, recently redesigned Nigeria's ₦200, ₦500 and ₦1,000 notes in a bid to reduce counterfeiting through improved security features, encourage a cashless economy, rein in inflation, reduce the currency in circulation, and address the issue of currency hoarding.

The CBN had launched the new notes on 15 December 2022 and subsequently specified a deadline of 31 January 2023 for the public to submit all old notes to commercial banks. However, the 45-day deadline was subsequently extended by the CBN until 10 February 2023, while the implementation of the policy was varied by President Muhammadu Buhari in a national broadcast on 16 February 2023, as a few State Governments instituted a case at the Supreme Court over the Naira redesign policy.

Following the CBN's currency redesign policy, currency in circulation has dropped from ₦3.28 trillion in December 2022 to ₦1.38 trillion in January 2023, and an estimated ₦982.09 billion in February 2023, representing a 235% decline. It was expected that the scarcity of redesigned notes, which has caused a cash crunch in the economy since January 2023, would stimulate a slowdown in demand-pull inflation, especially given the series of interest rate hikes by the CBN. This has, however, not happened yet, and suggests that the current level of inflation may not be due to excess money supply.

While an upside to the redesign of the Naira notes may be increased adoption of a cashless economy, it is important that the CBN continues to closely monitor and evaluate the impact of the Naira redesign on the Nigerian macroeconomic environment and makes appropriate policy interventions. This will ensure that the process of withdrawal and issuance of the currency does not exacerbate the economic situation in the country, and that the liquidity shock and supply chain disruption currently besetting both businesses and consumers are promptly and fully resolved.

v. Digitalisation and the Nigerian Startup Act

The Nigerian economy has become increasingly digitalised over the last two decades, thanks to the GSM revolution of the early 2000's and the world's increasing globalisation and digitalisation.

The digitalisation of the Nigerian economy has resulted in outsized growth in the Nigerian ICT sector, especially by players in the telecommunications and Financial Technology (FinTech) space. For instance, MTN Nigeria's revenue for 2022 financial year increased by 21.6% to ₦2.01 trillion, while its profit after tax grew by 20.2% to ₦359 billion[12]. Similarly, Airtel Nigeria recorded revenue growth of 23.3% year on year as at the end of its third quarter[13] despite the slowdown in customer base growth due to the Nigerian Communication Commission's regulation on the registration of new SIMs in Nigeria.

Nigeria has continued to prioritise the expansion of the ICT sector in recent years through dedicated policies and legislation. This includes the launch of the National Digital Economic Policy and Strategy 2020-30 in 2019, the roll-out of the National Broadband Plan (NBP) 2020-25 in 2020, the introduction of the National Cybersecurity Policy and Strategy 2021, and, recently, the enactment of the Nigeria Startup Act, 2022, and the launch of the Investment in Digital and Creative Enterprises Programme.

The Nigeria Startup Act provides numerous benefits to qualifying businesses and investors in the Nigerian digital ecosystem to help them address issues around capital, regulations, infrastructure, and talent. For instance, the Act, when implemented, will provide eligible start-ups with access to financing via the Startup Investment Seed Fund that is to be managed by the Nigeria Sovereign Investment Authority, and into which a yearly sum not less than ₦10 billion is to be paid. Further, labelled startups will have access to facilities administered by the CBN, the Bank of Industry and other bodies statutorily empowered to assist small and medium-scale enterprises and entrepreneurs.

In addition, the Nigeria Startup Act includes specific provisions aimed at reforming identified onerous legal, regulatory, tax and administrative bottlenecks which have hindered the successful operation of startups in Nigeria. Thus, the Act is expected to encourage the inflow of investment into Nigeria's digital sector, and support the overall growth of the Nigerian economy, if properly implemented in 2023.

vi. Other Critical Factors

In addition to the global and local factors highlighted above, the realisation of the 2023 Budget assumptions and the implementation of the Budget will be affected by the following critical factors:

(a) *Curbing of Crude Oil Theft* – Persistent crude oil theft and pipeline vandalism decimated Nigeria's crude oil production in 2022, plunging the country's oil production (excluding condensates) to a record low of 972,394 bpd in August 2022. Since then, the FGN has made concerted efforts to address the menace of crude oil theft. This has resulted in an uptick in crude oil production in subsequent months, with the country's crude oil production rising to 1,306,304 bpd in February 2023, the highest since January 2022[14].

The micro and macroeconomic implications of crude oil theft are obvious because it threatens the fiscal stability and sustainability of the country. The FGN, therefore, needs to sustain its gains in fighting the menace in 2023, in order to ramp up production, meet the budgeted oil production benchmark of 1.69 mbpd, increase the country's foreign exchange reserves, and fund the budget.

(b) *Fuel Subsidy Removal* – The 2023 FGN Budget is predicated on the assumption that the current fuel subsidy regime will end in June 2023 in line with the 18-month extension announced by the FG in 2022. Subsidy costs are currently treated as "under-recoveries" by the Nigerian National Petroleum Company Limited (NNPCL) and are set off against revenues before remittances are made to the Federation Account.

In the approved 2023 Budget, the total amount earmarked for fuel subsidy for the six months ending June 2023, is ₦3.36 trillion. This is equivalent to 32.2% of the expected 2023 FGN revenue figure of ₦10.43 trillion and is more than twice the ₦1.59 trillion that the NNPCL reportedly paid for fuel subsidy for the six-month period spanning January to June 2022[15].

The rising cost of fuel subsidy in Nigeria is unsustainable. It is, therefore, critical that the government fully deregulates the downstream sector of the petroleum industry and discontinues the subsidy regime as planned. In this regard, it is imperative that government develops and implements a well-thought-out road map for fuel subsidy removal as part of its implementation of the Petroleum Industry Act to ensure a holistic reform of the oil and gas sector. The plan should also include constant dialogue and engagement with all stakeholders throughout the implementation process.

(c) *Proposed Securitization of "Ways and Means"* – Section 38 of the CBN Act, 2007 includes a "Ways and Means" provision that empowers the CBN to grant temporary advances to the FGN in respect of temporary deficiency of budget revenue up to a limit of 5% of the FGN's actual revenue in the previous year. The CBN currently charges an interest rate of MPR (17.5%) plus 3% on such advances.

As at December 2022, the "Ways and Means" figure stood at ₦22.72 trillion (US$49.4 billion). Additionally, the President requested the National Assembly to approve a cash advance of ₦1 trillion (US$2.2 billion) by the CBN to the FGN.

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[12] *https://www.mtn.ng/wp-content/uploads/2023/01/MTN-Nigeria-Audited-Financial-Statements-2022.pdf*
[13] *https://africanfinancials.com/airtel-africa-plc-nigeria-q3-2022-conference-call-transcript/*
[14] *https://www.nuprc.gov.ng/oil-production-status-report/*
[15] *NNPC Presentation to the Federation Allocation Committee of 26 July 2022*

The President is seeking the National Assembly's approval for a proposed conversion of the ₦23.7 trillion cumulative Ways and Means advances into a 40-year bond with a 9% interest rate, which is much lower than the current interest rate of 20.5%. It is estimated that the securitization could save Nigeria about US$4 billion in interest payments in 2023.

The total debt-to-GDP ratio is expected to increase to 35.3% after the outstanding Ways and Means advances are added to the total public debt. This will still be in line with the IMF/WB threshold of 55% and the country's self-imposed limit of 40% per its Medium-Term Debt Management Strategy for 2020-2023.

Going forward, the FGN needs to limit its reliance on CBN overdrafts for financing fiscal deficits to the abovementioned statutory limit. This can be achieved through efficient budgetary planning and allocations, enhancement of revenue to fund government expenditure, and adherence to the statutory limit of 5% of the FGN's actual revenue in the previous year.

4.0 2023 Sectoral Outlook

Financial Services Industry

2022 Reflections

The Nigerian economy has continued to experience slow growth occasioned by the challenging socioeconomic conditions in the country and the global economy. Prior to its 3.52% real GDP growth in Q4 2022, the country's GDP grew by only 2.25% in real terms in the third quarter of 2022, which is lower than its 3.54% growth in the preceding quarter and the 4.03% growth recorded in Q3 2021[16].

The financial services industry (FSI or "the industry") of the economy, which recorded a real GDP growth of 12.41% in Q4 2022, has followed a similar trajectory: The industry's real GDP growth of 12.03% in Q3 2022 was 8.03% points lower than the growth achieved in Q2 2022 and less than half of the 25.43% real GDP growth recorded in Q3 2021. This deceleration in GDP growth could be associated with the contraction experienced in the oil and gas sector, slowdown in loan growth, concerns around loan portfolio quality, and issues pertaining to FX availability and exchange rates stability amongst other factors. However, Nigerian financial institutions have continued to demonstrate resilience and leverage financial technology and digital banking platforms for service delivery to their customers.

In aggregate, the industry contributed a total of 3.64% to real GDP in 2022, which is higher than its 3.20% contribution in 2021.

According to data provided by the Nigeria Inter-Bank Settlement System Plc, bank customers in Nigeria transferred a total of ₦19.4 trillion through various mobile banking channels in 2022. This represents an increase of 142% year-on-year compared to the ₦8 trillion worth of transactions conducted in 2021. Similarly, the volume of mobile inter-scheme transactions jumped by 151% year-on-year from 284.5 million transactions in 2021 to 609 million in 2022[17]. This demonstrates the traction gained by mobile and electronic forms of banking since the Covid-19 pandemic, which increased customers' level of adoption of cashless media for executing financial transactions across the country.

2023 Outlook

In 2023, we expect to see an increase in digitization, financial inclusion, and in the adoption of the CBN's cashless policy. We, therefore, expect the industry to continue to play its essential role of financial intermediation in the macroeconomy and grow during the year.

That being said, the growth of the industry is likely to be moderated by the macroeconomic realities of FX shortage and FX rate fragmentation, inflationary pressures, the current low-yield environment, and the impact of political activities in Q1 2023 during the general elections in Nigeria.

[16] National Bureau of Statistics' GDP Report for Q4 2022
[17] https://nairametrics.com/2023/01/14/bank-customers-transfer-n19-4-trillion-over-mobile-in-2022/

2023 Budget and the Financial Services Industry

The 2023 Budget of Fiscal Consolidation and Transition may have huge implications for the industry. Below are highlights of the key components of the Budget and their implications for the industry.

A. Deficit Financing

The 2023 Budget has a deficit projection of approximately ₦11.34 trillion. The fiscal deficit will be financed mainly through domestic borrowings of ₦7.04 trillion, foreign borrowings amounting to ₦1.76 trillion, sourcing of ₦1.77 trillion from multilateral/bilateral project-tied loans, and ₦206.18 billion from privatization proceeds. The difference of ₦553.46 billion is expected to be financed by additional revenue from spectrum fees and tax on the maritime sector. We expect the FGN's domestic borrowing plans to create opportunities for the players in the industry if this deficit amount is financed through the issuance of FGN bonds and other securities rather than through "Ways and Means" as has been mostly done in the past few years. However, given the amount of domestic borrowing projected by the FG, there is a potential risk of private sector players being crowded out that needs to be carefully managed.

B. Strategic Initiatives for Key Sectors to Improve FGN Revenue Mobilization and Collection

The FG, through the FIRS, is expected to increase its revenue generation drive by leveraging technology to increase efficiency in tax administration and collection. Specifically, the FIRS has directed Deposit Money Banks (DMBs) and some telecommunication companies to deduct VAT from the income of their vendors at source. This will place an additional tax compliance burden on affected financial institutions and may result in them being subject to increased scrutiny or more frequent tax audits by the FIRS

C. Social Investment and Special Intervention Programme

The provision of ₦7 billion for Special Intervention Programme – Family Home Fund, and ₦43 billion for Grants and Donor-funded Projects, presents opportunities for on-lending services, Government-to-persons payments and transaction support for banks.

Expectations from FSI Players in 2023

i. **Expanding Business Footprint to Local Areas:** More than half of Nigeria's adult citizens are without bank accounts due to factors such as extreme poverty, lack of confidence in financial service providers, and excessive bank charges. The industry will have to continue its focus on aggressive expansion of its agency networks to penetrate the financially excluded/unbanked segments of the economy.

ii. **Compliance Requirement:** DMBs will have increased compliance requirements with respect to the obligation to deduct VAT at source. Thus, the banks will need to update their processes to accommodate this new development to avoid non-compliance and its severe consequences.

Insurance Industry

2022 Reflections

The insurance industry in Nigeria showed resilience and sustained recovery in 2022. This is in comparison with the industry's position immediately after the height of the Covid-19-induced global economic slowdown and the End-SARS protest period which gave rise to significant claims of up to ₦11.1 billion[18] (representing a 10% increase over the prior year).

The Nigerian insurance sector has always had high potential for growth but has generally underperformed. In 2022, the sector had a year-on-year nominal GDP growth of 18.02%, and real GDP growth of 8.68%[19]. However, its contribution to real GDP was a meagre 0.39%, which is slightly higher than the 0.37% contribution it made to real GDP in 2021. This poor performance is mainly due to the country's significantly low insurance penetration (computed as gross premium as a percentage of GDP), which is estimated to be 0.51%[20]. The low penetration rate is shared by some other developing countries such as Ghana (1%[21]), Brazil (3.9%[22]) and India (4.2% in 2021[23]), though South Africa by contrast has an insurance penetration rate of 13%[24]. Key stakeholders in the insurance industry have attributed the low penetration rate to inadequate credit framework, poor enforcement of compulsory insurance (such as Motor Third-Party Liability Insurance and Group Life Insurance for employees) in many parts of the country, and a relatively low level of financial literacy, amongst other challenges. However, there is consensus on the significant growth potential of the industry in Nigeria.

Globally, the year 2022 witnessed inflationary pressure impacting greatly on the claims payments profile of many underwriters due to increasing costs of items required to restore losses reported by the insured. It was therefore a tough year for the sector in Nigeria, with the country's inflation rate rising to 21.47% during the year.

As part of its plan to deepen insurance penetration in Nigeria and ensure stability, the National Insurance Commission (NAICOM or "the Commission") had developed plans and issued a directive which required insurance companies to increase their minimum capital requirements. Specifically, life insurance companies were required to increase their minimum paid-up share capital from ₦2bn to ₦8bn, non-life insurance companies from ₦3bn to ₦10bn, composite insurance companies from ₦5bn to ₦18bn, and reinsurance companies from ₦10bn to ₦20bn. However, in July 2022, the Federal High Court in Lagos ruled that the directive by NAICOM should be reversed on the basis that the regulator lacked the power to increase the minimum paid-up share capital of insurance companies[25]. While this grants a reprieve to insurance companies, we anticipate that it may hinder the associated benefit of long-term stability and growth of the sector which the directive was aimed at achieving.

Overall, 2022 was a year of continued economic recovery for the insurance industry from the downturn it experienced in 2020 and Q1 2021.

2023 Outlook

NAICOM's target is for Nigeria to achieve 10% insurance penetration by 2023[26]. Considering the current state of the insurance industry and the country's projected GDP growth rate of 3.75% in 2023, it is unlikely that the target will be met.

However, we expect that life insurance, which is currently leading the growth in the sector, will continue to grow in 2023, albeit marginally. This growth should be supported by NAICOM's increased drive for employers' Group Life Insurance (GLI) compliance, following the Commission's clarifications that employers are mandatorily required to procure GLI policies for their employees in addition to the pension contributions they make to the Retirement Savings Accounts of the employees[27]. The proposed reintroduction of tax incentives via the Finance Bill, 2022, for employees that take up contracts for deferred annuity on their life or that of their spouse, should also spur interest in the product, if the provision is eventually codified.

Furthermore, NAICOM's recent increase of the annual premium payable by motorists for compulsory third-party vehicle insurance, from ₦5,000 to ₦15,000, is expected to result in an increase in insurance companies' revenue from motor vehicle insurance.

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[18] https://www.vanguardngr.com/2022/08/insurance-industry-pays-n11bn-endsars-claims-grows-gpw-by-10/
[19] National Bureau of Statistics' GDP Report Q4 2022
[20] https://www.thisdaylive.com/index.php/2021/11/29/insurance-penetration-in-nigeria-among-the-worst-in-africa-says-sbg/
[21] https://oxfordbusinessgroup.com/ghana-2022/insurance
[22] https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/insurance/insurance-outlook-pdfs/ey-global-insurance-outlook-brazil.pdf
[23] https://economictimes.indiatimes.com/small-biz/sme-sector/insurance-penetration-gains-momentum-in-india/articleshow/94530372.cms?from=mdr
[24] https://www.imf.org/en/Publications/CR/Issues/2022/06/16/South-Africa-Financial-Sector-Assessment-Program-Technical-Note-on-Insurance-Sector-519728
[25] https://www.thisdaylive.com/index.php/2022/07/20/court-says-naicom-lacks-power-to-increase-insurance-firms-share-capital/
[26] https://www.thisdaylive.com/index.php/2021/06/09/naicom-eyes-n1-5tn-insurance-sector-premium/
[27] https://www.pencom.gov.ng/wp-content/uploads/2020/09/Revised-Guideline-on-GLIP-2020.pdf

Moreover, based on the National Health Insurance Authority (NHIA) Act, 2022, health insurance is now mandatory, and the NHIA is statutorily required to take steps to ensure universal health coverage for every Nigerian and legal resident of Nigeria. If the Act is properly implemented, we expect this development to lead to increased investment in the health insurance sub-sector by existing Health Maintenance Organizations (HMOs) and insurance companies that wish to diversify their business lines. The effective implementation of the Act should, therefore, stimulate growth in the insurance, healthcare, and other related sectors in 2023 and beyond.

Like other industries, the insurance sector has witnessed increased digital adoption occasioned by technological advancement and innovation, and fuelled by the Covid-19-triggered upsurge in teleworking arrangements. The recent enactment of the Nigeria Startup Act, 2022 may spur an increase in the activities and number of InsurTechs in 2023 – if the Act is implemented – with the overall effect of improved market penetration for insurance companies and improved customer experience.

Globally, InsurTechs play very important roles in driving the strategic intent of the insurance sector, and their market size has continued to grow. According to Grand View Research, the total InsurTech industry value in 2022 is $5.4 billion[28]. We expect more InsurTechs in Nigeria to provide flexible and scalable technology-driven insurance offerings and contribute to a reasonable increase in Nigeria's insurance penetration in 2023 and beyond.

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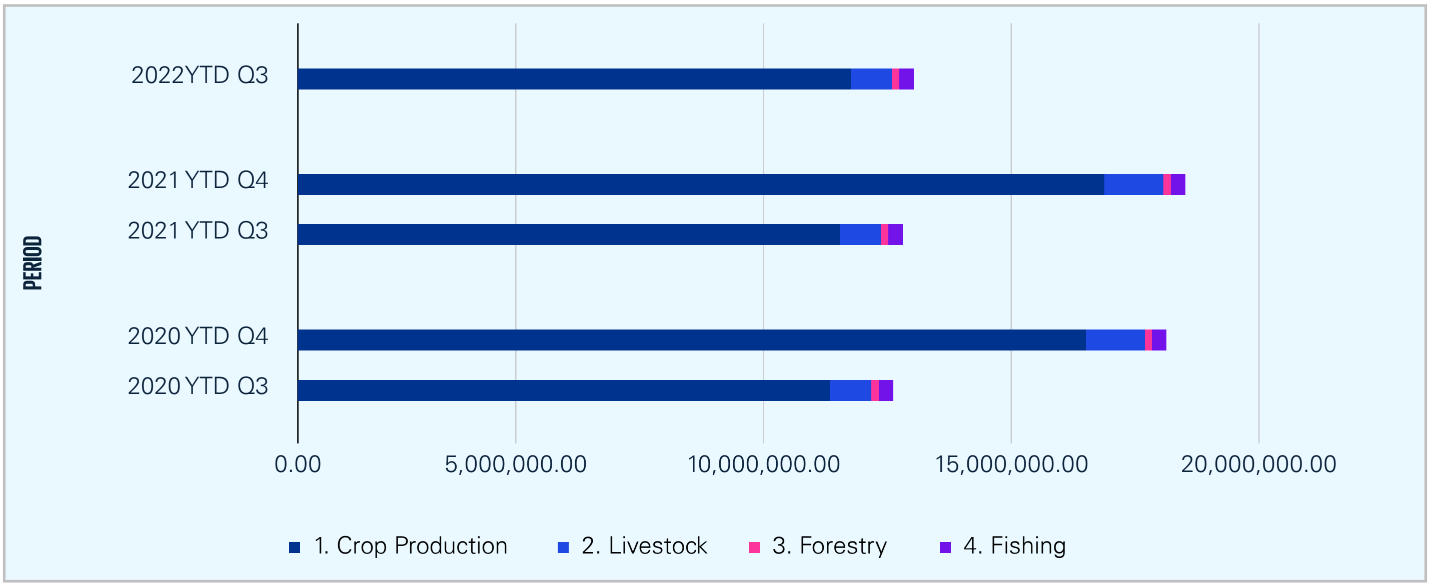
[28]https://www.grandviewresearch.com/industry-analysis/insurtech-market

Agricultural Sector

2022 Reflections

The Agricultural sector continued to contribute significantly to Nigeria's economy in 2022, accounting for 25.58% of the country's real GDP during the year[29]. Crop production continued to headline the sector, with a contribution of over 90% to the sector's performance, whilst Livestock, Forestry, and Fishing contributed 6.53%, 1.02%, and 2.03%, respectively.

In terms of government policies, the FGN launched the rice pyramids in January 2022, announcing a significant increase in Nigeria's domestic rice production from less than 4 million metric tonnes in 2015 (when the Government banned the importation of rice) to over 7.5 million metric tonnes yearly as at January 2022. This growth in domestic rice production was projected to continue in the coming years.



Despite the significant contribution of the sector to the nation's GDP, current production levels are not sufficient to meet domestic demand. Total food and live animals' imports stood at ₦2.7trillion in 2021 and ₦2trillion as at Q3 2022. The food import position for the year and the sector's contribu-tion to GDP may be further impacted by the devastating floods that occurred in Q4 2022.

The floods significantly affected the agricultural belt of the country, destroying about 332,327 hectares of land (including farmlands) and agricultural supply-chain infrastructure, and resulting in significant post-harvest losses. This development caused a spike in domestic food prices during the quarter and negatively impacted household food security.

However, given the severe impact of the devastating floods on many rice farms, the effect of the disaster on the projected short-term growth in local rice production would need to be re-evaluated.

The inability of the FG to address the rising cost of phosphate and potash (amongst other factors) has resulted in the prices of fertilizer going up by 206% in the 12 months ending February 2023. Besides, the lack of focus on improving the variety of rice grains planted, inadequate irrigation to engage in dry season farming, lack of mechanization to increase acreage, and the paucity of financing models that adequately cater to small-holder farmers continued to negatively impact on the ability of the different stakeholders in

[29]National Bureau of Statistics' GDP Report Q4 2022

the rice value chain to maximize the opportunity presented by the increasing local demand for rice in 2022.

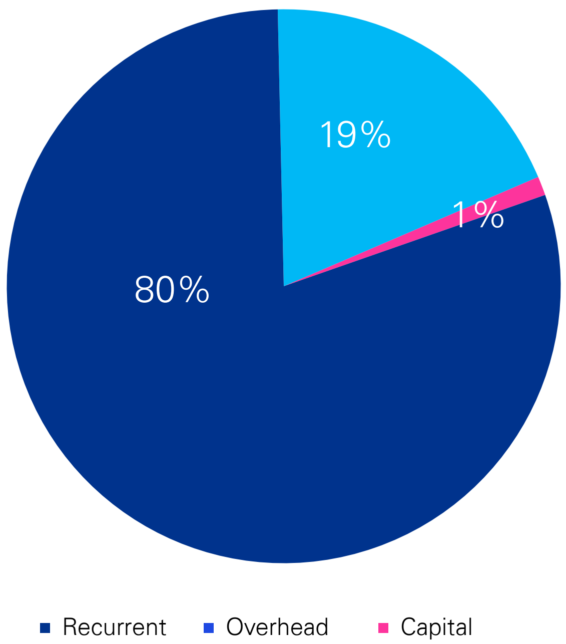
On a positive note, the Government finally established the National Agricultural Development Fund (NADF) to provide finance and other necessary support for agricultural development in Nigeria. The Fund will be made up of monies appropriated by the National Assembly as well as payments from other sources. We expect the Fund to become operational in 2023 and for the details of the interventions it would be appropriated for to be made public.

In terms of major projects, the President commissioned the Dangote fertilizer plant during the year. The plant, which has the capacity to produce 3 million metric tonnes of urea fertiliser per annum in its first phase, is expected to make Nigeria self-sufficient in fertilizer production, and make fertilizer consistently available to local farmers at affordable prices. However, this self-sufficiency and the affordability of locally produced fertilizer is threatened because two of the three inputs that go into NPK fertilizer production – potash and phosphates – are imported from Morocco, Russia, Ukraine and Canada. The war in the Baltics cut short 45% of the supply of these two components, and no significant efforts have been made yet in respect of local mining and production to backwardly integrate the production of these critical inputs.

2023 Outlook

We expect that the primary focus of the sector this year would be to rebound from the devastating effects of the flood that occurred in Q4 2022. Based on the approved 2023 FGN Budget, the total allocation to Agriculture and Rural Development was ₦426.98 billion, representing 1.96% of the total budgeted expenditure of ₦21.83 trillion. Unfortunately, this allocation is below the 10% minimum benchmark allocation to agriculture recommended by the Maputo Declaration on Agriculture and Food Security ("the Declaration") for members of the African Union.

The analysis of the total allocations to Agriculture and Rural Development in the 2023 Budget is shown below:



Some of the new sectoral projects included in the Budget are:

- Commercialization of production and import substitutions for pigeon, soybean, coffee, tea, kola, and wheat
- Provision of agricultural equipment and chemicals to farmers
- Provision of multilateral and bilateral tied loans for special agro-industrial processing zones
- Counterpart funding of agricultural projects with donor agencies
- Implementation of agricultural food security programmes
- Promotion and development of fisheries and aquaculture value chain
- Development and implementation of national fertilizer quality control programmes.

Key Imperatives and Events that Would Impact the Sector

The Agricultural sector in Nigeria requires significant investment and support in 2023 to improve food security and stem domestic and imported inflation. Considering that the sector is comprised largely of informal, smallholder farmers, there should be significant focus on supporting this category of farmers to rebound from the losses suffered from the flooding in 2022. Also, we expect that the Federal Government would continue to focus on stimulating investments and unlocking the potential of the sector by addressing identified challenges. This would require effective collaboration among relevant government ministries and agencies.

In our view, some of the key imperatives that will impact the sector are as follows:

1. **Successful implementation of the NADF:** The NADF should provide finance for the implementation of agricultural policies and strengthen agricultural institutions within the framework of national policies and strategies.

2. **Improved security:** The conflicts between herders and farming communities linked to disputes over grazing land has become frequent in parts of central and northern Nigeria in recent years. With the continued military onslaught against bandits harbouring surrounding forest areas, farmers in rural communities should be able to return to their farms safely.

3. **Quick repairs of damaged infrastructure**: Over the past decade, many parts of Nigeria have continued to experience annual flooding during rainy seasons which has resulted in destruction of farmlands, rural access roads and major roads. The speedy repair of these roads (especially the East-West road that was submerged by the flood in Q4 2022) will ease the movement of agricultural produce in Nigeria.

4. **Coordinate with the private sector and donor agencies to support farmers that suffered losses during the floods:** Funds have been set up by donor agencies such as the Food and Agriculture Organization of the United Nations and the World Bank to support companies negatively affected by climate disasters in 2022, and the Nigerian government has begun unlocking these finances through the Ministry of Environment. It would, therefore, be important for the Government to ensure that the funds are distributed transparently and used judiciously.

5. **Significant investment in research:** The discovery and application of new techniques of agricultural production is possibly the most fundamental and crucial step in agricultural development and sustainability in Nigeria. From a review of the budget allocation, billions of Naira have been allocated to research institutes and federal universities of Agriculture in Nigeria. The impact of these institutes and universities' research efforts needs to be felt in the Agricultural sector in Nigeria. Besides, the Government needs to capitalize on the Plant Variety Protection Act to improve on the yield per hectare of crops (just like the Brazilian Government developed a wheat variety that can grow in tropical countries and do up to 10 metric tonnes per hectare). This is key, for instance, to support the backward integration programme targets of the Flour Mills Association of Nigeria that is working to substitute the importation of five million metric tonnes of wheat yearly.

6. **Promote public-private-partnerships (PPPs) for the development of the Agricultural sector:** In recent years, the government has deployed PPP projects to develop the Agricultural sector. Examples of this include the Kebbi State Government's partnership with GB foods to build a ₦20 billion tomato processing factory, and the Lagos State Government's agreement with WACOT Rice Limited, a subsidiary of TGI Group, to manage the Imota rice mill. Partnerships of this nature need to be promoted and expanded across the agricultural value chain in Nigeria – especially in relation to the nation's largest food imports – to fully unlock the potential of the country's Agricultural sector.

7. **Focus on backward integration programmes:** The Federal and State Governments in Nigeria need to unlock the power of developing secondary verticals from primary agricultural inputs, as these secondary verticals are critical to consumer manufacturing.

   For instance, pharmaceutical companies require industrial starch that can be made from cassava, corn, potatoes, or rice to manufacture tablets. Flour millers require High Quality Cassava Flour (HQCF) gotten from processing cassava for the milling of flour (as a way of reducing the input of wheat, considering the rising cost of wheat per tonnage). However, only seven companies in Nigeria currently produce HQCF and meet just 17% of the total local demand. These examples point to the need for government to focus on PPP models that can incentivize companies to develop enterprise businesses that address these verticals.

The 1.3million-metric-tonne shortage of raw sugar (imported largely from India and Brazil), the 400million-litre shortage of ethanol, and the scarcity of soya oil (which has led to a hike in the price of cooking oil) and soya cake (which has contributed to the increase in cost of poultry feeds) are examples of why the importation of these Enterprise Manufacturing derivatives contribute to food inflation in Nigeria.

In our view, some interesting areas that government should (continue to) focus on for backward integration are sugar, bio-grade ethanol, dairy, industrial starch, soya oil, soya cake, shea oil, shea butter, ginger powder, ginger oil, and HQCF.

Consumer & Industrial Markets

2022 Reflections

The Consumer and Industrial Markets (CIM) sector comprises many of the thirteen economic activities that are reported under the Manufacturing sector in the NBS' GDP reports. These include the following activities amongst others: Cement; Food, Beverages and Tobacco (FBT); Chemical and Pharmaceutical Products; Non-Metallic Products; Motor Vehicles & Assembly; and Other Manufacturing. Based on the report for Q4 2023, the Manufacturing sector's real contribution to GDP in Q4 2022 was 8.40%, lower than the 8.46% recorded in the fourth quarter of 2021 and 0.19% shy of the growth rate for Q3 2022. Overall, the sector recorded a growth rate of just 2.45% in 2022, 26.87% down from the 3.35% real GDP growth achieved in 2021. This decline was reflective of the ripple effect of the numerous macroeconomic and operational headwinds that beset the sector in 2022.

Notwithstanding, many of the leading players in the Nigerian CIM space continued to demonstrate resilience as they navigated the turbulent landscape of rising energy costs, interest rates and inflation, FX scarcity, and weakened consumer purchasing power resulting from successive global and local shocks. Thanks to this, their revenue growth rates returned to pre-pandemic levels as the aftermath of the COVID-19 pandemic subsided, even though some legacy issues persisted.

For instance, the three cement companies listed on the Nigerian bourse reported an average year-on-year revenue growth rate of almost 30% in 2022. Revenues of leading public Fast-Moving Consumer Goods (FMCG) companies also rose by a similar percentage in 2022 compared to the same period in 2021.

The increased revenue of many sector players was predominantly attributed to increased prices, volume repackaging (aka "sachetisation") and cost optimisation; and many of them were able to achieve healthy growth in their gross margin and bottom line. However, it is important to note that some players experienced declined revenues occasioned by production cuts arising from FX scarcity and the soaring costs of inputs and commodity prices.

The impact of the introduction of excise duty on non-alcoholic, carbonated and sweetened beverages in June 2022, on the overall performance of affected companies in 2022, requires detailed evaluation. It is, however, curious to note that there was a sharp decline in the real GDP growth rate of the FBT sub-sector from 9.81% in Q1 2022 to 5.11% in Q2 2022, before the rate plummeted to -4.05% in Q3 and bounced back to 4.94% in the last quarter of the year. We hope that this is not a preview of things to come, as the overall real GDP growth of 3.86% recorded by the sub-sector in 2022 is 32.6% lower than its 5.73% year-on-year real GDP growth in 2021.

In our view, the above decline in the growth rate of the FBT sub-sector and the relatively low economic expansion of the entire Manufacturing sector, indicates that the sector requires urgent Government intervention to address some of its challenges and ensure that it continues to contribute positively to GDP growth. The FGN, therefore, needs to continue to reinforce its commitment to developing and stimulating the CIM sector in 2023 by implementing fiscal, monetary and FX policies that will address the underlining issues affecting the sector and the Nigerian economy in general.

2023 Outlook

i Global outlook

There is optimism for long-term growth, despite the impact of global shocks. Companies have developed greater resilience which helps them navigate some of these economic shocks. Global economic confidence over the next three years has rebounded from early 2022, rising to 71% in August 2022 as reported in the KPMG 2022 CEO Outlook. Nonetheless, based on the survey conducted, CEOs fear a global recession in 2023, but are prepared to weather the storm.

ii Post-election activities and government transition

Based on historic trends of previous election years in Nigeria, it is expected that the country will achieve positive GDP growth in 2023. We, therefore, expect to see a peak in Government spending and hopefully a boost in the economy. The increased spending by the Government may result in some stimulation of the economy and an increase in the purchasing power of civil servants. However, it is unlikely to catalyse accelerated growth. Curiously, there may also be some constraints due to the implementation of the cashless policy earlier in the year.

A peaceful hand-over of government in May 2023 will be critical to economic growth as it will ignite some assurance in investors on the stability of the political climate. Hopefully, this would re-activate foreign direct investments (FDI) in conjunction with the expected re-basing of the population estimates and other pro-business policies.

iii 2023 national population and housing census

The proposed census scheduled for 2023 would likely reflect an increased population which should boost investor sentiments and stimulate FDI in the CIM sector.

The project may also have an impact on unemployment due to the substantial number of ad-hoc staff that would be engaged for the exercise. More importantly, the exercise can create more value for the Nigerian economy by placing the country on the map as a target destination for consumer and infrastructure-related investments.

iv Climate change

Climate change is beginning to increase the frequency and intensity of floods and other natural disasters. Various food basket States have had to deal with the effects of flooding in recent times, which leaves FMCG companies vulnerable, if unchecked. Shortages of locally produced raw materials and input could worsen inflation and increase FX scarcity, which would negatively affect the CIM sector. Manufacturing companies also have an obligation to diversify their sources of energy to more renewable sources and make their operations more sustainable.

v Removal of petrol subsidy

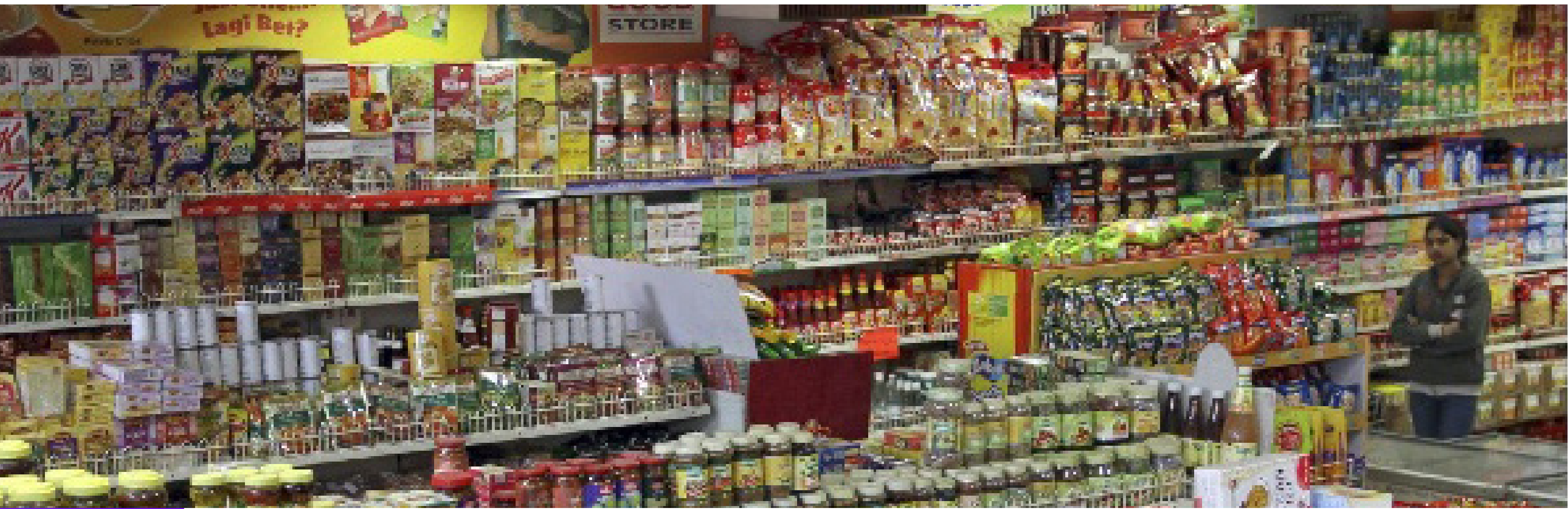
The 2023 FGN Budget was prepared on the assumption that petrol subsidy would be phased out by mid-2023. This would imply less disposable income and increased cost of doing business (especially transportation costs) in the short term. The removal of petrol subsidy has, however, been considered a sustainable long-term solution to Nigeria's treasury crisis. It may also positively impact the protracted FX scarcity that has plagued the country for decades.

Conclusion

Prices of consumer goods are likely to increase in 2023 in view of possible additional taxes and levies, inflation, FX scarcity and petrol subsidy removal. Harmonized and coordinated fiscal and monetary policy interventions and timely implementation of business-friendly policies will be required to drive the economic expansion of the CIM sector.

To stay competitive and harness opportunities, businesses must be strategic, innovative, and agile in responding to lingering economic shocks and possible decline in demand by leveraging technology and exploiting new operating models.

It is imperative that the incoming administration implements a sustainable and stable FX rate policy to reduce the soaring cost of input. The Government should also continue to promote policies that will improve ease of doing business, industrialization, large-scale agriculture, and backward integration which would spur increased growth in the CIM sector.



Oil and Gas Sector

2022 Reflections

Based on the 2023 FGN Budget, the Nigerian Oil and Gas industry is expected to generate 21% of the total projected revenue of ₦10.49 trillion required by the FGN to finance its expenditure in the year. This is a significant leap from the sector's actual percentage revenue contribution of 10% in 2022.

The key themes that shaped the Nigerian Oil and Gas industry in 2022 are as follows:

(i.) Crude oil production remained below expectation, averaging about 1.2 mbpd as at November 2022, compared to the budgeted volume of 1.6 mbpd. This was mainly due to crude oil theft and pipeline vandalism. Although oil prices were bullish at over US$100/bbl on the average, thanks to the Russian-Ukrainian war, Nigeria could not maximise this opportunity. Accordingly, the high crude oil prices were not sufficient to make up for the country's low production volumes, resulting in a setback in the nation's ability to meet its budgeted crude oil revenue.

(ii.) The 18-month extension of petrol subsidy till mid-2023 drained government coffers in 2022, as the government struggled to generate revenue.

(iii.) The continued implementation of the provisions of the PIA is also worthy of note. It has led to the formation of a new national oil company (the NNPCL) and enhanced the capacity of the new regulators: the Nigerian Upstream Petroleum Regulatory Commission (for upstream petroleum activities), and the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA) for the midstream and downstream petroleum activities.

(iv.) Increased awareness and conversation around climate change and green economy has also demonstrated the country's enthusiasm towards achieving net-zero emissions by 2060, in line with the Sustainable Development Goal No. 7 of the United Nations.

The headwinds in the industry are expected to abate in 2023, hopefully, based on the expected improvement in the efficiency of the regulation and administration of the industry, and clear measures that will be put in place for the implementation of the 2023 FGN Budget.

2023 Outlook

According to the United States Energy Information Administration (EIA), the price of Brent crude oil in 2023 will average $92 per barrel. This suggests that crude oil price will exceed the benchmark price of US$75/bbl adopted in the 2023 FGN Budget and should have a positive effect on the Budget if production targets are met, as it would increase the projected revenues moderately and therefore reduce the expected budget deficit.

In an attempt by the FGN to make progress in its development priorities as articulated in the NDP 2021 – 2025, Nigeria also seeks to attain a sustained net-zero emission of greenhouse gases by actively pursuing initiatives to transition from reliance on oil and diesel to gas as a transitional fuel, as well as environmentally friendly solar and hydro sources.

In 2023, Nigeria intends to spend a total amount of ₦35.547 billion[30] on the activities of the Ministry of Petroleum Resources (MPRes), about 90% of which relates to personnel cost. The budgetary provisions in this regard include expenditure for the MPRes' Headquarters, Petroleum Training Institute, and Nigerian Nuclear Regulatory Authority. Based on the Budget details, we have highlighted below, some budgeted expenses relating to the MPRes' initiatives. It, however, remains to be seen whether these budget allocations would be sufficient to achieve the FGN's desired objectives.

i. Oil and Gas sector reforms

This is an ongoing focus area for which the FGN has budgeted ₦25.215 million in 2023. These reforms are aimed at building world-class government institutions, entrenching corporate governance principles in managing those institutions and thereby attracting more investments. The expectations are that such reforms would also include the discontinuation of petrol subsidy in the second half of the year, and the continued implementation of the PIA.

ii. Implementation of National Gas Policy

The Government plans to spend ₦25.750 million on the continued implementation of the National Gas Policy in 2023. Nigeria has the largest natural gas reserve in

[30] There is a discrepancy in the Appropriation Act that suggests that the amount allocated to the MPRes is ₦34.207 billion.

Africa and holds the ninth position in the world. The National Gas Policy establishes the goals, tactics, and a plan for constructing the framework that will drive the institutional, legal, regulatory, and commercial reforms that are required to attract investment into the gas sector. The implementation of the policy is expected to facilitate the availability and proper distribution of LPG as well as controlled pricing geared towards affordability for citizens, amongst other objectives.

iii. Implementation of oil and gas priority projects

Over the last couple of years, the FGN has emphasized its commitment to the implementation of the following nine oil and gas priority projects:

a. Eradication of smuggling of PMS across Nigeria's borders
b. Completion of the Gas Flare Commercialisation Programme
c. Increase in crude oil production to 3 mbpd
d. Reduction in the cost of crude oil extraction by at least 5%
e. Promotion of the PIA
f. Promotion of Deep Offshore and Inland Basin Production Sharing Contract Amendment
g. Increase in domestic refining capacity
h. High renumeration job creation
i. Implementation of strategy towards lifting 100 million Nigerians out of poverty.

The 2023 Budget reflects an allocation of ₦28 million for the implementation of these priority projects.

iv. Emission Reduction Programme – Green Bond Issuance

The FGN has earmarked ₦10 million for green bond issuance under the emission reduction programme. Green bonds are a class of assets through which the proceeds of debt instruments are invested in specific projects that will mitigate the causes of climate change and/or help to adapt to the effects of climate change.

In addition to the above, the 2023 Budget also provides various strategies for accomplishing the oil and gas growth targets in the upstream, midstream, and downstream sectors of the Oil and Gas sector. These include:

i. Increase in production volumes to 1.69mbpd

Enhancing stability in the Niger Delta (by sustaining the peace in the area) and ensuring a decline in crude oil theft are the ways that the FGN plans to meet the benchmarked production output of 1.69mbpd. In this regard, the FGN has allocated a total of ₦10 million to the ongoing process of peace and polity stability in the Niger Delta.

ii. Modular Refinery Development Program

The Federal Government has allocated the sum of N10.090 million to the modular refinery programme. This is aimed at putting structures in place to boost local production of crude oil, thereby making petroleum products more readily available while eliminating importation.

iii. Development of oil and gas petrochemical component of the National Integrated Infrastructure Master Plan (NIIMP) – Downstream infrastructure mapping

The NIIMP is the FGN's blueprint for building, boosting, and modernising the country's infrastructure stock to grow the economy, enhance the quality of lives of Nigerians, create jobs and improve the country's global competitiveness. In this regard, the FGN has earmarked a total of N10.2 million for the development of the oil and gas petrochemical component of the NIIMP, with specific focus on downstream infrastructure mapping. The downstream infrastructure includes crude oil terminals, pipelines, depots, jetties, petrol stations and lubricant blending plants, amongst others.

iv. Removal of Premium Motor Spirit subsidy

Based on the 18-month extension announced in February 2022, the 2023 Budget framework assumes that fuel subsidies would continue until mid-2023. In this regard, ₦3.36 trillion has been set aside for petrol subsidy in the Budget (in the form of "under-recoveries" by NNPCL). Although, this is an election year, the expectation is that the new administration will pull through with the policy to end petrol subsidy by 30 June 2023, at the end of its first month in office. If effectively managed, this could unlock the potential and stimulate the much-needed growth of the downstream subsector, in particular, and the entire economy in general.

Conclusion

Oil prices are projected to be higher than Nigeria's benchmark price of US$75/bbl in 2023. Therefore, the elimination of oil and gas infrastructure vandalism and increased oil production will enable the Nigerian government to reap the benefits of the projected high oil prices (which has been elusive in recent past) and increase the country's FX reserves.

The industry is also expected to experience significant expansion following the PIA's operationalisation. To facilitate the expansion, the country must address its infrastructure deficit to be better positioned to attract foreign direct investments and capitalise on the sector's prospects.

Mining Sector

2022 Reflections

The Mining Sector ("the Sector") maintained its consistent growth in 2022, in terms of its contributions to the nation's GDP and to the FGN's revenue. As of November 2022, the FGN's actual revenue from mineral and mining stood at ₦3.99bn, over 82% above the pro rata target of ₦2.19 billion[31] expected by November 2022. The Sector contributed 0.21% to real GDP in 2022[32], which is higher than its real GDP contribution of 0.17% in 2021.

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. The Sector also witnessed other notable achievements in 2022, summarized as follows:

i. The discovery of Lithium in commercial quantities in some parts of Nigeria, coinciding with the time of renewed and increased interest in the metal, globally;

ii. The launch of the Electronic Mining Cadastre System (eMC+) to facilitate online mineral titles administration and management; and

iii. The increased collaboration between the Ministry of Mines and Steel Development (MMSD or "the Ministry") and relevant agencies such as the Economic and Financial Crimes Commission and the Nigeria Security and Civil Defence Corps towards combating illegal mining, etc.

Despite the above successes, the Sector was still plagued by the activities of illegal miners, excessive regulatory/fiscal oversight, insecurity, and huge infrastructural deficit, which constrained the growth of the Sector.

2023 Outlook

The FGN's total allocation to the Sector rose from ₦23.5 billion in 2022 to ₦39.9 billion in 2023, representing a 70% increase as depicted in the chart below:

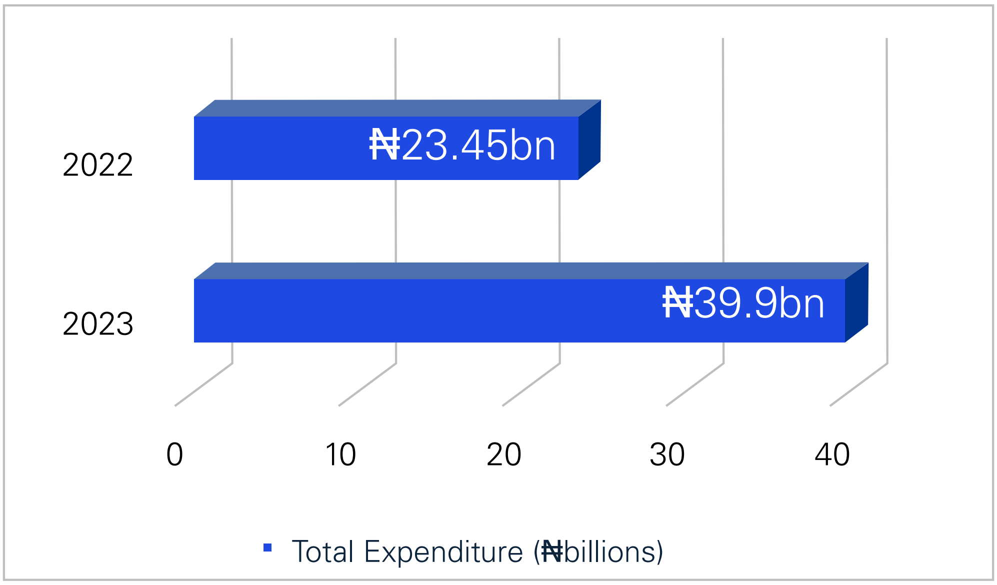


Chart 1: *Comparative Analysis of Total Expenditure*

31 https://www.budgetoffice.gov.ng/index.php/hmfbnp-public-presentation-of-2023-fgn-budget-proposal-breakdown-highlights/hmfbnp-public-presentation-of-2023-fgn-budget-proposal-breakdown-highlights/download

32 National Bureau of Statistics' GDP Report Q4 2022. We have considered the Coal Mining, Metal Ores, and Quarrying and Other Minerals subsectors.

A closer review of the 2023 Appropriation Act shows that 68% of the total budget for the Sector is earmarked for capital projects, representing a 139% increase over the amount allocated in 2022. Conversely, the projected total spend for overhead and personnel expenditures in the MMSD increased marginally as depicted in the chart below:

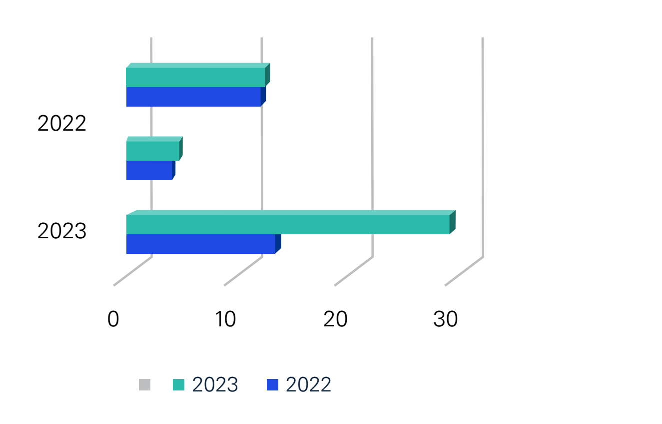


Chart 2: *Comparative Analysis of Total Spend*

The following charts provide a pictorial analysis of the allocation of the total expenditure in 2023 and 2022:

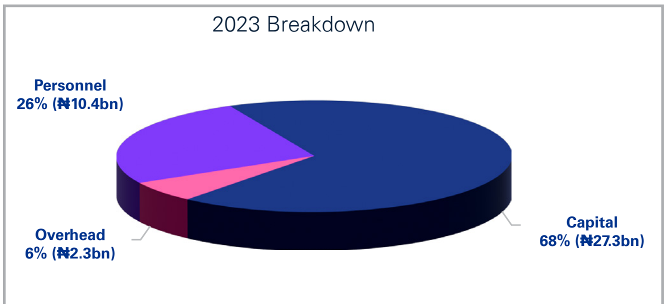


Chart 3: *Breakdown of Total Expenditure for 2023*

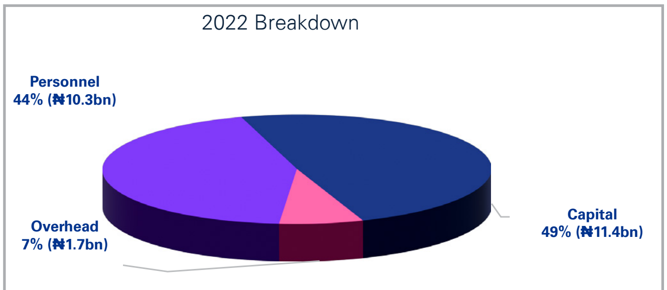


Chart 4: *Breakdown of Total Expenditure for 2022*

The projected revenue from the Sector is currently estimated at ₦3.64bn, which represents a 26% increase over the 2022 budgeted revenue figure of ₦2.9bn. Given the revenue performance of the Sector in 2022 (based on the actual figures as of November), the budgeted revenue for 2023 would seem reasonable and easily achievable.

About ₦22.8bn (84%) of the total budgeted capital expenditure (CAPEX) for the Sector is allocated to the MMSD. This is a clear divergence from the 2022 budget where only about 31% of the total CAPEX budget was earmarked for the Ministry. Clearly, the FG intends to focus on the Ministry to enhance its capacity to deliver on its mandate and ensure the sustained growth of the Sector.

Furthermore, about 96% (₦21.8bn) of the above amount is the anticipated spend on "Multilateral/Bilateral tied-loans – Mineral Sector Development Project". The details of the purpose of the loan and its intended use are yet to be released. However, the nomenclature in the Appropriation Act suggests that the funds would be targeted at sector-specific projects that will enhance the Ministry/Sector's capacity to grow, attract global mining majors, support small-scale artisanal miners to improve their operations, and tackle, to the extent possible, the infrastructural and funding deficit plaguing the Sector. The expectations are that the Ministry will subsequently provide details of the use of the funds, and, if any portion is designated as soft loans to miners, issue relevant guidelines to enable the industry players to determine eligibility and accessibility.

The FG has also allocated about ₦10.5m to the MMSD for project monitoring and evaluation programme for the implementation of the Roadmap for the Growth & Development of the Sector (hereafter referred to as "the Roadmap"). Similarly, about ₦5.9m was earmarked for the production of annual reports on the activities of the Ministry and its Agencies.

The funds are meant for the Mining Implementation Strategy Team (MIST), an arm of the Ministry set up to monitor the execution of the Roadmap. The MIST is arguably one of the important recommendations of the Nigerian Mining Roadmap issued in August 2016. One of the key objectives of the MIST is the development of a communication strategy for articulating the implementation process and progress to different audiences, including investors, the President, Federal and State governments, the Public, the National Assembly, etc., on a regular basis. It is hoped that the above budgetary allocations would enable the MIST to fulfil its mandate as enshrined in the Roadmap.

Interestingly, while the CAPEX earmarked for the MMSD increased by 539% when compared to the 2022 budgeted amount, the FG reduced the projected CAPEX spend of most of the departments and/or agencies in the Sector, with the exception of the Nigerian Institute of Mining and Geosciences, the National Iron Ore Mining Project – Itakpe, and the Ajaokuta Steel Company Limited, whose CAPEX budgets increased by 17%, 69%, and 158%, respectively, relative to 2022. This may suggest the completion (or near completion) of most of the ongoing projects embarked upon in the previous year(s), and may be an indicator of the effective utilization of the funds budgeted.

The increased budgeted CAPEX for the Nigerian Institute of Mining and Geosciences is to cater for infrastructural facilities (such as construction/rehabilitation of roads, streetlights, laboratory equipment etc.) and grants to schools, youths, and women. Similarly, the increased budgeted spend on the National Iron Ore Mining Project – Itakpe is majorly to cater for the road construction and maintenance of the facilities. For instance, about ₦300m (83%) of the total CAPEX for this Project is earmarked for the grading and asphalting of Owowolo road in Kogi State.

In the same vein, the total budgeted CAPEX allocated to the Ajaokuta Steel Complex (ASC) in 2023 increased compared to the level in 2022. This is surprising, considering that there are indications that the ASC may be handed over to a reputable multinational firm for operationalisation under a concession arrangement[33], following the resolution of all the litigation issues with Messers Global Steel Industries (the previous concessionaire). From the Appropriation Act details, 72% (₦350m) of the total budgeted CAPEX for the ASC is for the provision of solar powered streetlights for selected rural communities in Niger State. Another 16% is earmarked for training and capacity building for youths in selected rural communities across Kogi State.

The Mining Sector is one of those that the FGN intends to focus on in its bid to diversify the economy from dependence on crude oil. Consequently, the Government would need to prioritize the initiatives contained in the Budget for the year to continue to sustain the growth that it witnessed in 2022. In this light, it would be important for the Ministry to prioritize the following initiatives:

(i) Improved accountability and reporting of the activities of the Ministry and its associated agencies.
(ii) Improved security for players in the Sector.
(iii) Introduction and implementation of stricter measures around collection of Government revenues.
(iv) Continued promotion of the formalisation of artisanal mining, especially in the precious metals mining ecosystem.
(v) Full adoption/implantation and utilization of the eMC+ system.
(vi) Ensuring the credibility of geoscience data about minerals and metals reserves in order to be able to attract global mining majors to the country.

33 https://dailytrust.com/11-foreign-firms-bid-for-ajaokuta-steel-company/

Infrastructure Sector

2022 Reflections

Infrastructural development is a key pillar for the micro- and macro-economic development of any society. However, Nigeria has suffered from poor planning and inadequate investments in infrastructure over time. According to the revised National Integrated Infrastructure Master Plan (NIIMP or "the Plan") published by the FGN in 2020, Nigeria requires a total infrastructure investment of US$2.3 trillion over a 23-year period (2020 to 2043) to raise its infrastructure stock to the international benchmark of 70% of GDP. Some of the asset classes identified in the NIIMP and the estimated investment required in them over the 23-year period covered by the Plan are: Energy (US$759 billion), Transport (US$575 billion), and Housing and Regional Development (US$253 billion).

Based on the Plan, the country requires an annual investment of about US$150 billion in the medium term to begin to bridge the infrastructure gap. This investment is expected to be financed by Federal and State Government budgets, public debt or government borrowing, other government-controlled sources (such as the Sovereign Wealth Fund or Pension Funds), and Public-Private Partnerships (PPPs). The NIIMP acknowledges that increased private sector participation would require a supportive environment with stable and transparent government policies, rules and regulations, fiscal and monetary incentives to investors, long-term financing mechanisms, and strengthened PPP-management capabilities.

However, despite the Plan (and its previous versions), the country's infrastructure deficit has continued to increase with the attendant impact on the existing structures by a fast-growing population. This is partly because the FGN has historically been unable to fully fund its budgeted capital expenditure which, in any case, includes low infrastructure expenditure components. For instance, the total allocations to infrastructure in the FGN Budgets for 2021 and 2022 were lower than 10% of the aggregate budgeted expenditure for each of the years, and add up to only a quarter of the aggregate budgeted capital expenditure (exclusive of transfers) for the period. What is more, only about 75% of the aggregate budgeted capital expenditure (exclusive of transfers) for 2021 was actually disbursed, down from the almost 90% achieved in the previous year.

Sadly, this percentage dropped further in 2022: As of November 2022, the pro rata actual spending on capital expenditure was ₦1.88 trillion (about 40%) out of the ₦4.68 trillion budgeted. This level of actual capital expenditure, combined with the fact that most State and Local Governments also have poor infrastructural development scorecards, has further contributed to the infrastructure deficit in the country.

Given the current pace of development, it may take the country a long time to close its infrastructure gap, which the World Bank estimates would likely reach $3trillion in the next 30 years[34].

The major sectors of the Nigerian economy that generally attract the most infrastructure-related investments and have the greatest infrastructure spend are Construction, Real Estate, Transportation and Storage, and Electricity. According to the NBS, the Construction and Real Estate sectors of the economy contributed roughly ₦30 trillion to Nigeria's nominal GDP in 2022. This represents approximately 15% of the nation's nominal GDP of about ₦200 trillion during the year.

In real terms, though, the Construction and Real Estate sectors contributed a total of 9.18% to Nigeria's real GDP in 2022 and the sectors grew by 4.54% and 3.95%, respectively, during the year[35]. The growth was largely driven by private sector-related construction and real estate activities, and demonstrates the sectors' capacity for expansion where private sector involvement is encouraged. However, the growth was supported by public sector projects such as the rehabilitation and reconstruction of key road networks like the Lagos-Ibadan expressway, Abuja-Kano expressway, East-West Road in the Niger Delta, and the Oworonsoki expressway[36].

[34]World Bank's Nigeria Public Finance Review Report (November 2022): Fiscal adjustment for better and sustainable results
[35]NBS' Nigerian GDP Report Q4 2022 and KPMG analysis
[36]President Muhammadu Buhari's 2023 FGN Budget Presentation Speech

Constructions awarded under the Road Infrastructure Scheme have also contributed to the economic growth of the Construction sector, as projects such as the Apapa-Oworonshoki-Ojota expressway and the Obajana-Kabba road were undertaken by the Dangote Group under the Scheme. These projects, amongst others, demonstrate the effectiveness of the scheme and how tax incentives can be a catalyst for infrastructural development.

The Transportation and Storage sector, which includes road transport, rail transport, pipelines, water transport, air transport, transport services, postage, and courier services, contributed 1.48% to real GDP in 2022. This represents an increase from its 1.33% contribution to real GDP in 2021.

2023 Outlook

The FGN has estimated a total expenditure of ₦21.83 trillion for 2023 fiscal year, with ₦5.97 trillion budgeted for capital expenditure (exclusive of transfers). Of this amount, ₦1.24 trillion has been earmarked for infrastructural development. This equals 5.7% of the total budget and 20.8% of the total capital expenditure (exclusive of transfers). The infrastructure allocation includes provisions for Works and Housing, Transport, Aviation, Water Resources, and Power.[37]

Works and Housing

The allocation in the 2023 Appropriation Act is designated for several ongoing projects as well as new rehabilitation, construction, and special repairs projects. These include:

- Expansion of Abuja-Keffi dual carriageway and dualization of Keffi-Lafia-Makurdi road
- Dualization of Obajana Junction to Benin Phase 2 (Okene or Auchi)
- Upgrading and rehabilitation of Keffi-Awanga-Lafia road
- Construction of roads in Aliero, Kebbi State
- Projects relating to FGN's National Housing Programme nationwide
- Rehabilitation of Kabba-Ayere-Isua-Ipele road
- Construction of Gorgaram-Guri road
- Reconstruction of Girgir Karage road in Yobe State.

Given that this is a transition year, there is a risk that some of these projects may remain uncompleted within the stipulated timeframe, especially if the new administration decides to embark on other projects. The timely disbursement of funds by the FGN and the proper monitoring and execution of the projects will, therefore, be critical.

Water Resources

TThe Ministry of Water Resources has a total budgetary allocation of ₦242.2 billion out of which ₦230.9 billion relates to capital expenditure. The capital allocation relates to multilateral/bilateral-tied loans for various water supply projects in the country, and numerous projects targeted at improving the nation's water resources management system, irrigation, and overall economic development. These include the construction of Farin Ruwa dam and water supply project, Akure water supply and sanitation project, erosion control works in Azuoba Okenenkwu, Edda, Ebonyi State, and the rehabilitation and upgrading of water treatment plants.

Transport and Aviation

The Transport sector recorded the completion of several road and rail projects in 2022, and the FGN has expressed its readiness and commitment to complete other outstanding projects in 2023.

It is hoped that the projects that are near completion or scheduled to be completed before the end of 2023 will not be obstructed by the upcoming change in government.

With respect to aviation, the FGN earmarked ₦67.8 billion for capital projects out of the ₦77.3 billion allocated to the Federal Ministry of Aviation, to further improve the current state of the Aviation sector. The allocation is meant for airport certifications, Katsina Airport expansion, and the execution of the Lagos Aerotropolis project amongst others in 2023.

In addition, the enactment of the Civil Aviation Act, 2022 is expected to positively impact the performance of the Aviation sector in 2023. The Act strengthens the powers of the Nigerian Civil Aviation Authority and removes some complications regarding the authority of the Federal Airport Authority of Nigeria and the Nigeria Airspace Management Agency. The legislation is, therefore, expected to improve the regulatory efficiency of the aviation sector, and would hopefully not result in increased operational costs for industry players.

Conclusion

The FGN's capital budget performance in 2023 is likely to be challenged as in previous years, as the Government may struggle to meet its current revenue projections. Thus, in our view, the key success factors for infrastructural development in the country include, but are not limited to, the following:

- rationalisation of existing portfolio of public infrastructure projects;
- stable and investment-friendly policy and regulatory framework for PPPs;
- development of a robust infrastructure project;
- prioritization and selection process;
- development of innovative alternative mechanisms for the financing of infrastructure projects through the development, construction and operational phases;
- improved transparency in public procurement processes and resolution of legacy legal issues across key infrastructure sectors; and
- political will.

[37] Honourable Minister of Finance, Budget & National Planning's Public Presentation of the 2023 FGN Approved Budget

Power Sector

2022 Reflections

2022 was an eventful year for the Nigerian power sector given the myriad of events that occurred in the sector. The events ranged from the Senate's approval of the Electricity Bill 2022, the significantly increased investment in renewable energy, Nigerian Bulk Electricity Trading Plc (NBET)'s burgeoning debt crises arising from unpaid energy capacity charges, and the Nigerian Electricity Regulatory Commission (NERC)'s proposal for a minor tariff review on a biannual basis to reflect inflationary pressures and foreign exchange market volatility. Despite the events, Nigeria's power generation peaked at 5,043.4MW on 1 September 2022, which is still far below the country's installed total capacity of 14,541[38] MW from generating plants in operation.

We have highlighted below, some of the key events that shaped the Power sector in 2022:

1. Senate's approval of the Electricity Bill, 2022

On 20 July 2022, the Nigerian Senate passed the Electricity Bill, 2022 which seeks to repeal the Electricity and Power Sector Reform Act, 2005, and enact the Electricity Act. The Bill is expected to harmonize all pieces of legislation regulating the Nigerian electricity supply industry and provide a comprehensive institutional framework that governs the industry. The Bill also seeks to encourage private participation and leverage the modest gains of the privatization phase of the sector to improve electricity generation, transmission, and distribution through increased investments in new technologies, and minimization of the aggregate value chain losses.

2. Contract-based electricity administration policy

The Minister of Power announced a policy shift known as contract-based electricity administration on 1 July 2022[39]. The aim of the policy is to address electricity generation and distribution challenges in the country. Based on the policy, NERC will hold DisCos and GenCos accountable for electricity supply and distribution (which includes the provision of at least 5,000MWh of electricity per day) and will mete out sanctions in the event of default.

However, the jury is still out on the effectiveness of the policy, as some stakeholders are of the view that the policy did not address the issue of shortage of gas supply for generating plants, high level of unpaid electricity bills by consumers, and the perennial issue of weak transmission network, which is still largely controlled by the government.

3. Power sector debt crises[40]

Despite the different intervention programs by the FGN to ease liquidity challenges in the Power sector in 2022, power generation companies continued to attribute their low power generation to debts owed by NBET Plc with a Final Settlement Statement showing an impairment of 30.25%. As of March 2022, the total debt stood at ₦1.644 trillion, which arose from historical tariff shortfalls since 2015.

Although NBET has continued to implement strategies to reduce the debt burden, the existing debt continues to impact the efficiency of Nigeria's Electricity Supply Chain.

4. Improvement in solar energy projects

There have been significant investments in the solar energy generation subsector in recent years, given its potential to alleviate the energy crisis, and positively

[38] https://nbet.com.ng/index.html
[39] https://dailytrust.com/we-need-total-overhaul-of-power-sector/
[40] https://assets.kpmg/content/dam/kpmg/ng/pdf/power-sector-watch-edition-2022-q2.pdf

impact the health and socioeconomic well-being of citizens. Some of the key developments in the subsector are:

(a) Introduction of the Environmental and Social Management Plan (ESMP) Guidelines for solar mini-grid project by the FGN. The Guidelines aim to standardize and ensure that solar mini-grid projects comply with social and environmental best practices and create an enabling environment for speedy and easy deployment of mini-grid projects in line with the ESMP.

(b) Investment of over €15 million by the Nigerian Bottling Company to increase its solar generation capacity to about 15 megawatts before the end of 2022.

(c) The launch of US$1.35 billion Nigerian Green Energy Project ("the Project") by the European Union (EU) through Team Europe Initiative (TEI)[41]. It is expected that the project will boost Nigeria's renewable energy development and diversification efforts. The Project will involve 60 different projects across the agricultural and energy sector's value chain, with a focus on climate-smart agriculture, circular and digital economy, and improving Nigeria's competitive advantage.

(d) The launch of the construction of a 2.5 megawatts (MW) solar power plant at the Nigerian Defence Academy in Kaduna. The project commenced in October 2022 and is expected to be completed within a year.[42]

(e) The approval of a US$1.5 billion loan facility from the US-EXIM Bank to deliver solar power infrastructure in 10 different locations nationwide. The loan is a government-to-government loan facility with a 20-year concession period.[43]

(f) The Energising Economies Programme delivered clean power solutions at Sabon-Gari Market in Kano, Ariaria Market in Aba, and Sura Shopping Complex in Lagos, thus connecting over forty-six thousand businesses to clean energy.[44]

2023 Outlook

Based on the achievements in the power sector in 2022, the prognosis for 2023 and beyond looks cautiously bright, in the light of the following:

i. The proposed constitutional amendment giving States power to license the generation, transmission and distribution of power, is expected to be a game changer in the Nigerian Electricity Supply Industry. The expectation is that President Muhammadu Buhari would assent to the amendment, and that State Governments would take advantage of it to attract private investors with a view to improving the reliability and availability of electricity supply in their States.

ii. Electricity generation intervention projects such as the Siemens Power Program with approximately US$2 billion investment in the Transmission Grid should hopefully assist to ramp up grid electricity supply to at least 7,000 megawatts by 2024.

iii. The FGN's ability to leverage concessionary funds from the World Bank, International Finance Corporation, African Development Bank, and Japan International Cooperation Agency through the CBN, working with the Ministry of Finance, to support Power sector reforms.

iv. The CBN's financing interventions for the roll-out of over a million metres to on-grid consumers are expected to improve the metering of customers, reduce power theft, and improve cash flow in the electricity value chain.

v. The FGN's financing interventions have also led to the takeover of four electricity distribution companies (i.e., the Kaduna, Kano, Ibadan, and Port Harcourt DISCOs) and the constitution of the Board of the Nigeria Electricity Liability Management Company.

vi. There has been an incremental investment of 4,000MW of power-generating assets through the Zungeru Hydro, Kashimbila Hydro, Afam III Fast Power, Kudenda Kaduna Power Plant, the Okpai Phase 2 Plant, the Dangote Refinery Power Plant, and other environmentally friendly solar and hydro sources.

vii. The FGN (through the Energising Education Programme) has commissioned solar and gas power solutions at Federal Universities and Teaching Hospitals across the country.

In 2023, the FGN intends to spend 5.7% of its total budget (i.e., ₦1.24 trillion) on infrastructural development, out of which a total of ₦ 239.51 billion has been allocated to the Ministry of Power (MoP). It is expected that a sizeable portion of these funds will be used to finance new and existing power generation, transmission, and renewable energy projects.

[41] https://theelectricityhub.com/eu-launches-a-1-35b-nigeria-green-energy-project/
[42] https://punchng.com/fg-wbank-fund-2-5mw-power-plant-in-nda/
[43] https://pumps-africa.com/nigeria-sun-africa-ink-us-1-5bn-deal-for-electrification/
[44] https://rea.gov.ng/energizing-economies/

A review of the details of the 2023 Appropriation Act shows that the following significant projects will benefit from the allocation:

I. New multilateral/bilateral project-tied loans for Nigeria's Electrification Project to gulp the sum of ₦23.96 billion;

II. New multilateral/bilateral project-tied loans for the Power Sector Recovery Operations, under the National Rural Electrification Agency, for which the sum of ₦70.56 billion has been earmarked;

III. ₦1.72 billion for the Distribution Expansion Programme projects targeted at enabling the utilisation of stranded power from the grid;

IV. Multilateral/bilateral project-tied loan for the Zungeru hydroelectric power project to the tune of ₦76.55 billion;

V. Construction and completion of several power substations including a 2x30 MVA, 132/33KV substation in Akwa Ibom State, a 30MVA 132/33KV substation in Gwaram, Jigawa State, as well as counterpart funding of earmarked transmis sion lines and substation projects under donor agencies with a total allocation of ₦1.72 billion; and

VI. Allocation of ₦43.04 billion to several National Rural Electrification Projects. A number of these projects relate to new solar mini-grid projects in various locations, as well as the purchase and completion of existing renewable energy micro-utility solar-powered mini-grids. A considerable number of these projects will be financed by multilateral/bilateral project-tied loans for the Nigeria Electrification Project.

All the power projects in the 2023 Budget are aimed at ensuring that Nigeria continues to improve its generation, transmission and distribution infrastructure given the incessant challenges being experienced by the sector. The new and existing projects are expected to consolidate on the improvements achieved in 2022 and ensure that Nigeria is closer to achieving its set goal of energy sufficiency by 2030, with 30% being generated from renewables.

Despite the challenges being experienced by the sector, there appears to be light at the end of the tunnel given the initiatives of the FGN and developments in the Power sector. However, it remains to be seen whether the size of these projects and their speed of execution can, over the next eight years, collectively result in the realisation of the above energy sufficiency aspiration.

Nonetheless, we expect that the enactment of the Constitution (Fifth Alteration) Bill No. 33 (Devolution of Powers (National Grid System)) will open a vista for State Governments to set up State electricity boards that can power regional grids and work to enhance the collection of revenue – as this has historically caused GenCos to accumulate debts, thereby disincentivizing them from investing in expanding generation capacity to either meet or surpass base load.

Hospitality Industry

2022 Reflections

The hospitality industry in Nigeria comprises five broad segments: Accommodation, Food Services, Arts, Entertainment, and Recreation (which are represented in the NBS' GDP reports as the *Accommodation and Food Services sector, and the Arts, Entertainment and Recreation sector*[45]). These segments complement one another as well as other sectors of the nation's economy.

It is impossible to reflect on the performance of Nigeria's hospitality industry in 2022 without considering the COVID-19 pandemic and the severe impact it has had on the industry over the last couple of years. However, the good news is that the country and the industry have slowly recovered from the effect of the pandemic in many respects. The announcement of the relaxation of the last set of restrictions in the aviation industry by the Director General of the Federal Aviation Authority of Nigeria (FAAN) in December 2022 is a stark reminder of how much progress has been made. Under the new rules, air travellers no longer need to wear protective masks at airports or aboard planes, and the need to obtain a licence to travel to the country has also been scrapped.

The expectation is that FAAN's announcement will help sustain the growth experienced by the hospitality industry in 2022. According to the NBS, the Accommodation and Food Services sector achieved a real growth rate of 4.22% in 2022. This represents a significant turnaround in the fortunes of the sector considering that it recorded negative growth rates of -17.75 and -0.45% in real terms in 2020 and 2021, respectively. The growth recorded by the sector enabled it to contribute 0.73% of Nigeria's real GDP in 2022 and came on the back of the increased hotel occupancy rates recorded by most hotel chains in Nigeria during the year.

Nigeria hosted its first-ever United Nations World Tourism Organisation (UNWTO) Global Conference in 2022. The event, which was themed "Linking Tourism, Culture and the Creative Industries: Pathways to Recovery and Inclusive Development," provided a platform for the country to display its rich assets in the tourism and hospitality space and deliberate on ways of fostering inclusive economic growth through robust partnerships between stakeholders in the hospitality industry.

Another notable development in 2022 was the selection of the hospitality industry as one of the industries earmarked by the FG as priority sectors for intensive development in the National Development Plan (2021 – 2025)[46], which is a major effort to drive a more resilient economic growth in Nigeria.

Overall, the hospitality industry experienced a few positives in 2022 and grew during the year.

[45] Please refer to our commentary on the Media and Entertainment industry for additional insights.
[46] https://nationalplanning.gov.ng/wp-content/uploads/2021/12/NDP-2021-2025_AA_FINAL_PRINTING.pdf

2023 Outlook

The World Travel & Tourism Council (WTTC) has projected that the Nigerian Travel & Tourism sector's contribution to GDP will reach near pre-pandemic levels in 2023. Specifically, the global tourism body predicts that the sector will grow by 10.4% in 2023 to reach more than ₦7.2 trillion, just 3.5% short of 2019 levels and amounting to 3.9% of the country's projected total GDP at the end of 2023. The WTTC report also forecasts that employment in the sector will increase to more than 2.5 million jobs at the end of the year, representing a 4.3% growth.

Globally, the hospitality sector is recognised as a key creator of value, contributing up to 10% of the world's GDP. Nigeria's hospitality industry has immense potential for growth and can serve as a major channel of foreign exchange into the country. However, to realise the potential, the Nigerian government must continue to create an enabling business environment to stimulate growth and address the challenges limiting the growth of the industry.

One of the pertinent issues that have been raised over the years, is whether the Government is showing sufficient commitment to making Nigeria a destination of choice for tourists as this would significantly impact the hospitality industry. The answer to this question cannot be divorced from the level of investment that the government is making in critical sectors of the economy, especially in the development of infrastructure.

Power has continued to be a significant concern for the industry, though it is expected that the Siemens deal would continue to contribute to the improvements observed in the sector over the last year. The FGN also recently restated its commitment to achieving an installed grid generation capacity of 30GW by the year 2030, even though it is unlikely that the effect of this would be felt this year.

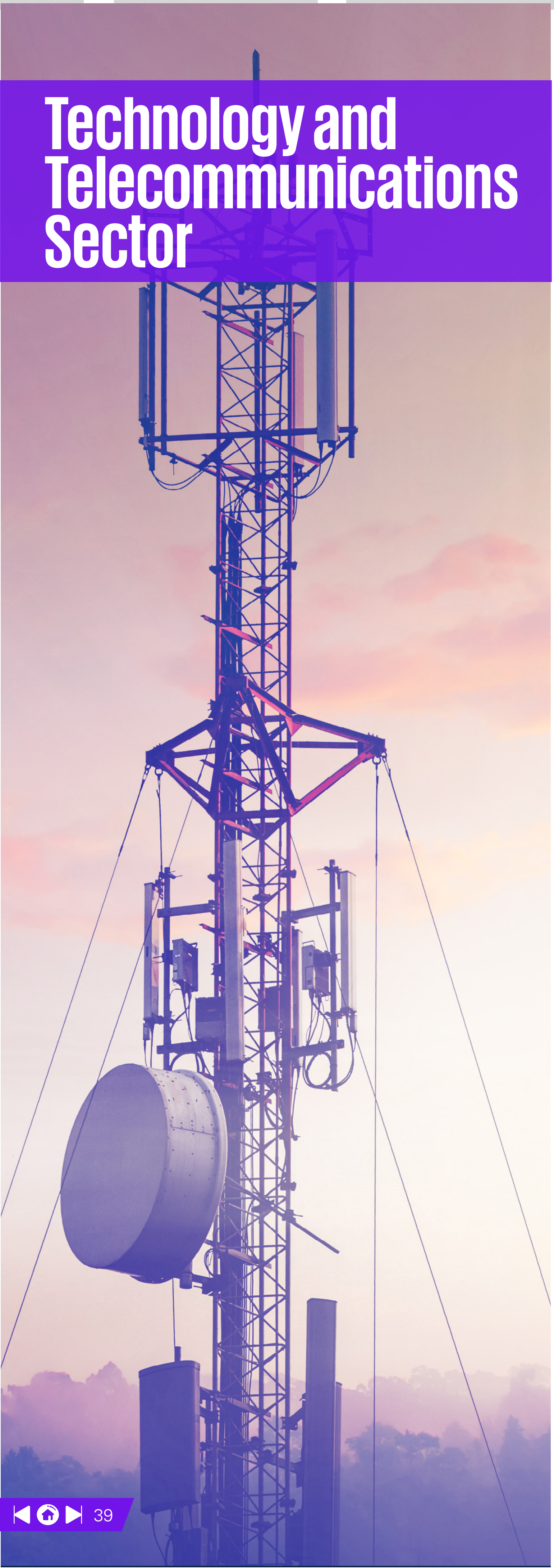
There are also investments in railway infrastructure which are meant to link some of the major commercial centres in the Southern part of the country to those in the North. This should expand commercial activities between both regions and positively impact the hospitality industry. However, it is unlikely that any of the major railway infrastructure would be completed by the end of 2023.

Security remains a major concern given the negative effect of banditry in the North and other agitations in the Southern part of the country on the hospitality sector. However, the FGN and several State Governments have continued to prioritise investments in upscaling the security infrastructure in the country, and it is expected that the effect of this would be felt in 2023.

Despite the abovementioned infrastructural and security challenges, businesses in the industry have continued to strive for growth by constantly providing leisure and comfort to tourists and foreign investors who bring foreign currencies into the Nigerian economy, to enhance the nation's economic development.

In 2023, we expect the Nigerian hospitality industry to continue to experience a rebound, following the return of global mobility, international travel, and physical business retreats and sundry events. However, the security concerns and infrastructure deficit in the country may impede the pace of growth.

Technology and Telecommunications Sector



2022 Reflections

The Technology and Telecommunications (T&T) sector of the Nigerian economy continued to outperform most other sectors in 2022. Based on the National Bureau of Statistics' GDP report for Q4 2022, the Telecommunication & Information Services sector contributed 13.57% in real terms to Nigeria's GDP in 2022, higher than the 12.63% recorded in 2021.

The importance of the T&T sector was underscored by the number and strategic importance of legislative and regulatory interventions designed to optimize its performance and ensure that it continues its upward trajectory. The most storied of these was the enactment of the Nigeria Startup Act in October 2022, which aims to remove onerous legal, regulatory, tax and administrative bottlenecks that had hitherto limited the operations of technology startups in Nigeria. Also, in its bid to sanitize the use of technology in lending money to members of the public, the Federal Competition and Consumer Protection Commission (FCCPC) issued the Limited Interim Regulatory/Registration Framework and Guidelines for Digital Lending. The Guidelines specify the requirements for approval/registration to carry out the business of digital lending in Nigeria and aim to provide guidance to the operators and businesses in the digital lending industry pending the development of a more comprehensive framework by the Inter-Agency Joint Regulatory and Enforcement Task Force comprising the Commission, the National Information Technology Development Agency, and the Independent Corrupt Practices and Other Related Offences Commission.

Another important regulatory development was the publication of the Rules on Issuance, Offering Platforms and Custody of Digital Assets ("Digital Assets Offering Rules") by Nigeria's Securities and Exchange Commission (SEC). The SEC's issuance of the Digital Assets Offering Rules signalled to the investing public that Nigeria was moving away from the regulatory strictures it had imposed on that class of assets and was now ready to benefit from the global boom in digital assets. However, the subsequent implosion of FTX Trading Limited, one of the largest cryptocurrency exchanges in the world, may have reduced the appetite for digital assets. Nonetheless, the issuance of the SEC Rules now seems prescient in mitigating the lack of oversight and other risk areas, in contrast to the free-wheeling approach that allowed FTX to mismanage investors' funds.

The mobilization of capital for the T&T sector also received a boost with the approval of the Rules for Listing on NGX Technology Board ("NGX Tech Rules") by the SEC in December 2022. The approval of the NGX Tech Rules is a significant achievement that should increase Nigeria's appeal as an attractive investment destination by tech companies and investors, and further broaden and deepen the Nigerian capital market.

2023 Outlook

2023 looks promising for the T&T sector as the impact of the abovementioned legislative and regulatory changes should begin to be felt during the year – albeit during the second half of the year due to the focus on the general elections and government transition in H1 2023.

We envisage the inflow of foreign investments into the T&T sector from Q3 onwards, especially on account of the NGX Tech Rules and the implementation of the Nigeria Startup Act. However, the forecasts of economic downturns in Europe and the Americas and the interest rate dynamics in developed countries may dampen the interest of investors and limit the amount of capital flow into Nigeria.

Domestically, we expect further exponential growth of the telecommunication subsector in 2023 with the roll-out of 5G services by telecommunication companies. This comes on the back of the 5G spectrum auction that was conducted by the Nigerian Communication Commission (NCC) in December 2021 during which MTN Nigeria and Mafab Communication won the bid for two spectrum lots within the 3.5GHz frequency band. MTN Nigeria subsequently rolled out its commercial 5G network in Q3 2022, while Mafab Communications received the NCC's nod for a deferral of its launch date to January 2023. The NCC is expected to conduct another bid round in 2023 for the sale of two additional lots in the 3.5GHz spectrum for the deployment of 5G services. Thus, the 5G space in Nigeria is one to watch.

Furthermore, the entry of SpaceX into the Nigerian telecommunications market is expected to boost the T&T sector and drive increased competition and investment. Although the pricing of the company's satellite internet service would put its services beyond the reach of most Nigerians, some large corporates are likely to migrate to its network. This may reduce the demand on traditional networks' internet infrastructure and enable them to provide better internet services to last-mile users, fuelling greater economic productivity.

Also, the expansion of the two leading telecommunications companies, albeit indirectly through the operation of their payment service bank (PSB) subsidiaries, may be significant. Specifically, MTN Nigeria and Airtel Nigeria received approvals-in-principle from the CBN for PSB operations, and the PSB entities should fully commence business in 2023. We expect this development to have a positive impact on the economy, both in extending financial inclusion to the unbanked and increasing mobile penetration and internet quality in rural communities, as the telecommunication companies and their PSBs extend their reach in those areas.

From an international perspective, there are three items to be highlighted. The first is that the orderly winding down of FTX should defuse the tension in the digital assets space, placate investors and eventually re-ignite interest in digital assets. However, it seems unlikely to us that the recovery of the digital assets class would be this year and the Digital Assets Offering Rules might be impeded until confidence is restored in digital assets globally.

Secondly, the Pan-African Payment and Settlement System (PAPSS), which was set up to facilitate intra-African cross-border trade by removing the barriers to payment, should stimulate more serious intra-African trade in 2023. Given that the PAPSS is now connected to about eight central banks, four national switches and over 50 commercial banks across Africa, the opportunities for intra-African trade should seriously take off this year.

Finally, there would likely be greater adoption of artificial intelligence (AI) solutions in 2023, given the phenomenal growth of ChatGPT and the buzz around it since its launch in November 2022. ChatGPT's popularity should lead to a sustained interest in AI by the public, which may finally trigger the long-awaited widespread transition to the internet of things.

2023 promises to be an exciting year for the T&T sector in Nigeria!

Media and Entertainment Industry

2022 Reflections

The Media and Entertainment (M&E) industry is one of Nigeria's fastest-growing industries in nominal terms. According to the NBS' GDP report for Q4 2022, the Arts, Entertainment and Recreation (AER) sector grew by 18.30% in nominal terms in 2022, almost eight times its rate of growth in the preceding year. This statistic highlights the growth potential and possible impact of the sector on the national economy.

It is worthy of note that the Nigerian movie and music industries have been key contributors to the growth of the AER sector. The Nigerian movie industry, Nollywood, which is regarded as the second largest movie industry in the world, continued to produce blockbuster films in 2022. Nigerian cinemas also continued to grow in 2022 after staging a comeback in 2021 from the setback they suffered in 2020 on account of COVID-19-related lockdowns and social distancing protocols. It should be noted, though, that a considerable number of movie enthusiasts in Nigeria now prefer to stream movies from the comfort of their homes, having subscribed to the over-the-top video option during the COVID-19 lockdown period.

In August 2022, Amazon, the American multinational technology company, launched a localized version of its Prime Video streaming service in Nigeria. The tech giant has also been collaborating with filmmakers and content creators in Nigeria to produce original and licensed content. Netflix, one of the largest streaming platforms in the world, also continues to collaborate with Nigerian filmmakers to produce licensed content.

The Nigerian music industry also saw similar traction and has continued to gain acceptance and recognition globally: Nigerian artists have garnered massive streaming numbers in the last few years on various international streaming platforms like Spotify, Apple Music etc., with a couple of them winning prestigious international awards, like the Grammy Award and the American Music Awards, in recent years. International collaborations involving Nigerian artists and their foreign counterparts also rose in 2022. Besides, the year saw Nigerian artists perform at some of the biggest stages in the world, including the closing ceremony of the 2022 FIFA World Cup.

The digital marketing and gaming segments of the Nigerian M&E industry also continued to grow in 2022.

In May 2022, Meta Platforms Incorporated, the parent company of Facebook, Instagram, and WhatsApp, published a report in which it projected that the metaverse could add about $40 billion to the economies of Sub-Saharan countries like Nigeria and Kenya over the next 10 years. The company subsequently debuted its African Metaverse journey in Lagos, Nigeria, exposing creators to the future of social media and ways of monetizing their content in the virtual space through mechanisms like Non-Fungible Tokens. The company noted at the event that its strategic decision to launch Africa's Metaverse journey in Nigeria was because of Nigerian creators' leading role in content creation in Africa and the world.

2023 Outlook

We expect the M&E industry in Nigeria to continue to grow in 2023 as smartphone penetration and internet access increase. The roll-out of commercial 5G networks by MTN Nigeria and Mafab Communication in 2023 is particularly expected to enable the growth of the industry, as the high speed, low latency, and network slicing capabilities of 5G are expected to result in improved user experience and demand for internet gaming, high-quality video streaming services, and virtual and augmented reality experiences. Although the metaverse is still at its infancy, especially in Nigeria, it has the potential to create opportunities for Nigerians and the economy in general in 2023.

Furthermore, Nigeria's youthful population, deep love for sports, increased internet penetration, and access to internet-enabled devices will contribute to the continued growth of the gaming industry in 2023. Sports betting, in particular, has grown significantly over the last few years, and is projected to generate around N730 billion annually.[47]

We expect digital marketing, especially influencer marketing, to continue to grow faster than traditional marketing in 2023. As the competition for Nigerians' shrinking disposable income grows stiffer, and social media platforms like TikTok, Instagram and LinkedIn become more popular, especially amongst Nigerian youths, companies will increase their digital marketing spend to raise brand awareness, reach new audiences, and gain market share.

Nollywood will continue to wow the world with blockbuster movies in 2023. However, the ability of Nigerian cinemas, and indeed the entire movie industry, to maximise their growth potential during the year will depend on increased cinema screen investment amongst other factors. According to the United Nations Educational, Scientific and Cultural Organization, Africa only has one cinema screen per 787,402 people, making it the most underserved continent in terms of movie theatres.[48] However, this also makes the continent one of the next front-liners in the advancement of the global cinema industry.

According to BusinessDay, Nigeria has just 251 screens, compared to the United States' over 40,000 screens, and China's 34,000 [49]. The limited number of screens in Nigeria has been identified by the movie industry as a limiting factor and needs to be fixed in order to optimise the growth, revenues, and profits of industry stakeholders.

Aside from screen shortage, it is important to underscore the fact that the Nigerian M&E industry faces other challenges that continue to hamper its growth and forestall the realisation of its full potential. These include issues around copyright infringements and piracy, poor technology and equipment, and poor access to finance.

The resolution of these issues through focused government policies, a supportive business and regulatory environment, the improvement of Nigeria's macroeconomic indices, increased local and foreign direct investment, and capacity development, will unleash the industry's enormous growth, job-creation, and revenue-generation potential in 2023 and beyond.

[47] https://nairametrics.com/2022/03/05/sports-betting-in-nigeria-the-case-for-and-against/
[48] UNESCO – "The African Film Industry: Trends, Challenges and Opportunities for Growth"
[49] https://businessday.ng/arts-and-life/article/more-screens-more-money-for-nollywood/

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