ECONOMIC REPORT

H1 2022

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Introduction

From rising global oil prices and supply chain disruptions, caused by the Russia-Ukraine war, to domestic insecurity and hyperinflation, the Nigerian economy has faced several external and internal shocks in the last six months.

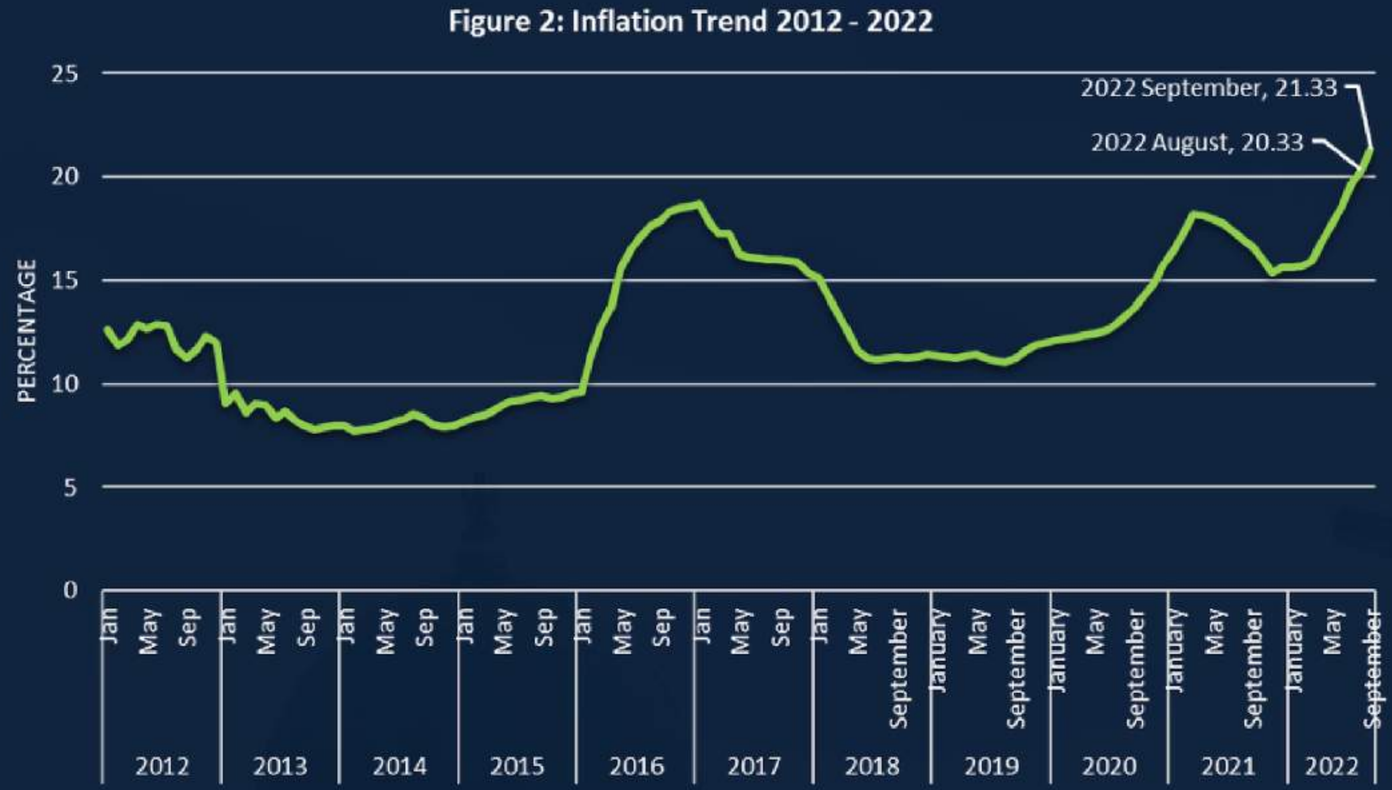
REAL GDP GROWTH RATE

According to Figure 1, the Nigerian economy recorded a year-over-year growth of 3.54% in real terms in the second quarter of 2022. This was significantly lower than the growth rate of 5.01% registered in the same quarter the previous year but marginally higher than the 3.11% growth rate seen in Q1 2022. On a quarter-on-quarter basis, the economy in the second quarter plummeted by 37 basis points indicating that economic activity was lower in Q2 2022 compared to Q1 2022.

Figure 1: Trend Analysis of Real GDP Growth Rate

Source: NBS, PearlMutual Analytics

INFLATION RATE



Source: NBS, PearlMutual Analytics

Since the start of the COVID-19 pandemic, Nigeria has experienced a steady rise in the price of goods and services. The official monthly inflation rate peaked at 19.64% in July 2022, the highest since the pandemic. The last time the country had an inflation rate that was higher than that of July 2022 was in 1996 – 26 years ago. That year began with an inflation rate of 47.56% in January and ended in December with a rate of 14%.

Hyperinflation has become a threat to the world economy. The COVID-19 pandemic and the Russia-Ukraine conflict are two major events that have disrupted supply chains across the globe, causing prices to rise due to shortages. Inflationary pressure in the Nigerian economy is partly due to external factors such as the rise in global oil prices and internal forces such as insecurity and forex illiquidity.

OFFICIAL EXCHANGE RATE

The official exchange rate has remained relatively stable at around 414 in H1 2022. In the last decade, the Naira has lost more than 62% of its value against the dollar. Since the start of the pandemic, the Naira has witnessed six devaluations. However, our analysis shows that the currency is currently overvalued, implying that further depreciation should be expected. This expectation is not out of place as factors such as forex illiquidity, high import propensity, weak export, and hyperinflation are prevalent.

Figure 3: Trend Analysis of Daily Offical Exchange Rate

Source: NBS, PearlMutual Analytics

FOREIGN RESERVE

Figure 4: Monthly Foreign Reserves Position

Source: NBS, PearlMutual Analytics

In the first half of 2022, the external reserve was approximately US$ 39 billion. This was an improvement from 2020 when the pandemic resulted in a significant dip in reserve. While the rise in oil price was once expected to drive up the foreign reserve, the reduction in oil production and the sustained increase in the external debt profile have made this unrealistic. To put things in context, at the end of March 2022, the external debt-to-reserve ratio was 1.02. This statistic was 0.14 at the end of March 2013 (during the period when the foreign reserve was at the highest it had been in a decade). This implies that currently if the country were to clear all its external debt, the foreign reserve would not be sufficient. External debt servicing puts a strain on the reserve.

NET EXPORT VS NET IMPORT

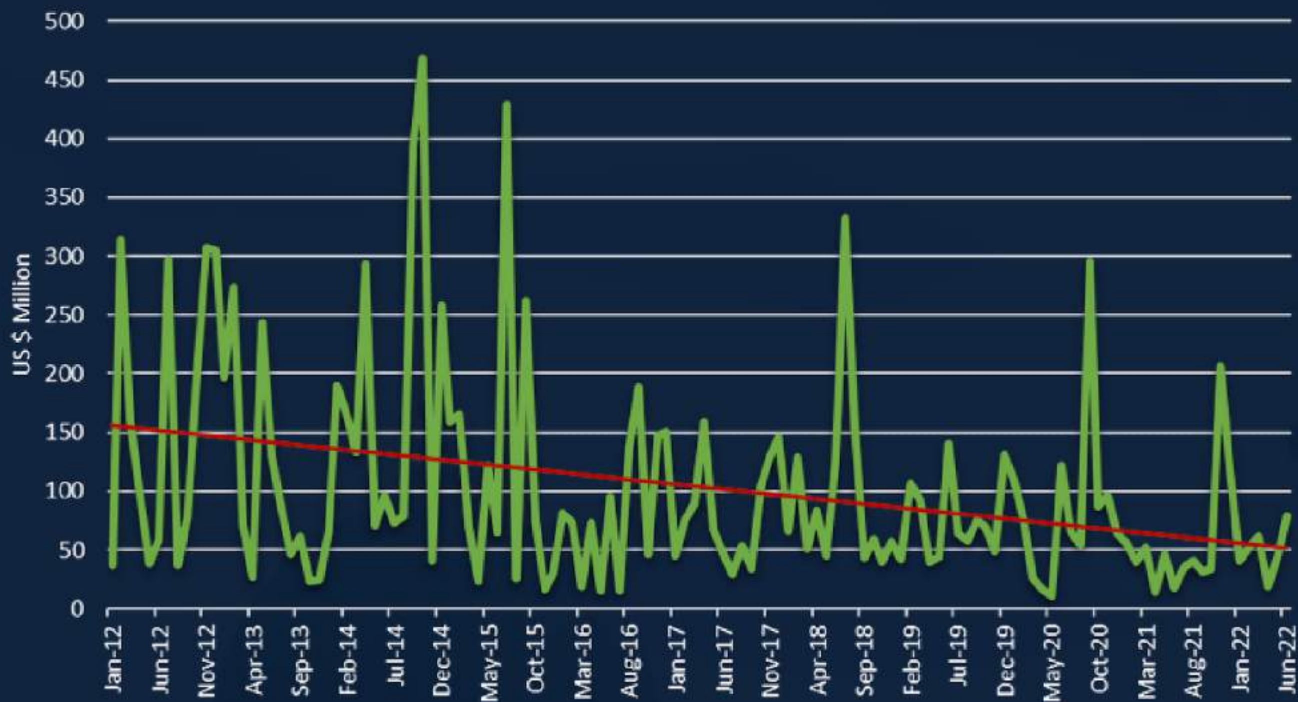
Throughout the first half of 2022, Nigeria recorded a positive net export with the highest value of US$ 1.890 billion recorded in March 2022. This performance ranks below pre-pandemic levels (excluding the recession of 2016). While the positive net export of H1 2022 is promising on the surface, it is important to point out that if the effect of crude oil and refined petroleum is taken out, then Nigeria remains a net importer. For instance, in the first quarter of 2022, crude oil and natural gas constituted about 90% of total export while refined petroleum made up about 30% of total imports. This position makes the country highly vulnerable to external shocks, particularly events that affect oil demand.

Figure 5: Trend Analysis of Net Export

Source: NBS, PearlMutual Analytics

FOREIGN DIRECT INVESTMENT

Figure 6: Trend Analysis of Foreign Direct Investment



Source: NBS, PearlMutual Analytics

In H1 2022, Figure 6 illustrates that the average monthly foreign direct investment (FDI) into the country was USD 50 million. This is approximately 35% higher than the USD 37 million monthly average for the first half of the previous year and roughly 35% lower than the USD 78 million monthly average of the preceding half. When compared to the best half of the last decade (H1 2013) the FDI for H1 2022 was about 68% lower than the USD 157 million FDI recorded for that year.

The red trend line shows that, overall, the FDI into the country has been declining over the years. A declining FDI means that the demand for the Naira is declining, thereby contributing to weakening the currency. Furthermore, it implies a plunge in the rate of new job creation.

LOOKING FORWARD...

H2 2022

In the second half of the year, we expect the Nigerian economy to continue growing. Based on the projections displayed in Figure 1, we expect a growth rate of 3.69% in the third quarter of 2022. This will be the eighth consecutive quarter of growth since the economy exited recession in 2020.

In May 2022, the apex bank raises the monetary policy rate from 11.5% to 13.5% and to 14% in July 2022. This move was taken with the hope that it will encourage savings and investment, thereby curbing the rising inflation. Unfortunately, data suggests that the effect of this policy is yet to be seen. This may be because there is nothing or little for people to save and invest as inflation has weakened their capacity to do so.

Given the sustained increase in external debt and the reduction in oil production and export, we expect the external reserve to decline further in the remaining half of the year.

While the government has made some commitment to the diversification of the economy away from oil, the outcome of this effort is expected to be seen in the long run. In the short to medium term, we expect the net export to maintain a weak position.

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