



# Analysts Monthly Review

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## Policy Actions for Improved Economic Performance in 2023

The year 2022 had a lot of challenges, ranging from; i) rising global and domestic inflation; ii) weak growth; iii) Russia- Ukraine war and high commodities prices; iv) floods impact on commodities’ supply; v) increased poverty and unemployment; vi) widening foreign exchange differential; vii) high government borrowing; and viii) increased call for fuel subsidy removal. The country also witnessed the redesigning of its currency, limit on cash withdrawal and the commencement of elections campaign with various impacts on the economy.

It was against this background that ADSR organized its maiden edition of Year-end Webinar themed, “**2023 In Perspective**” on Thursday, 22nd of December, 2022. The webinar gave a review of the economic and socio-political events and trends during the year 2022 and discussed outlook of what to expect in 2023, with practicable recommendations for policy-makers, businesses and citizens.

The Webinar benefited from discussions of subject-matter experts drawn from the industry, academia, policy think tanks, and international organisations, among others. A communique was issued at the end of the Webinar to inform policymakers, businesses, media and the general public on policy actions to achieve improved economic performance in 2023.

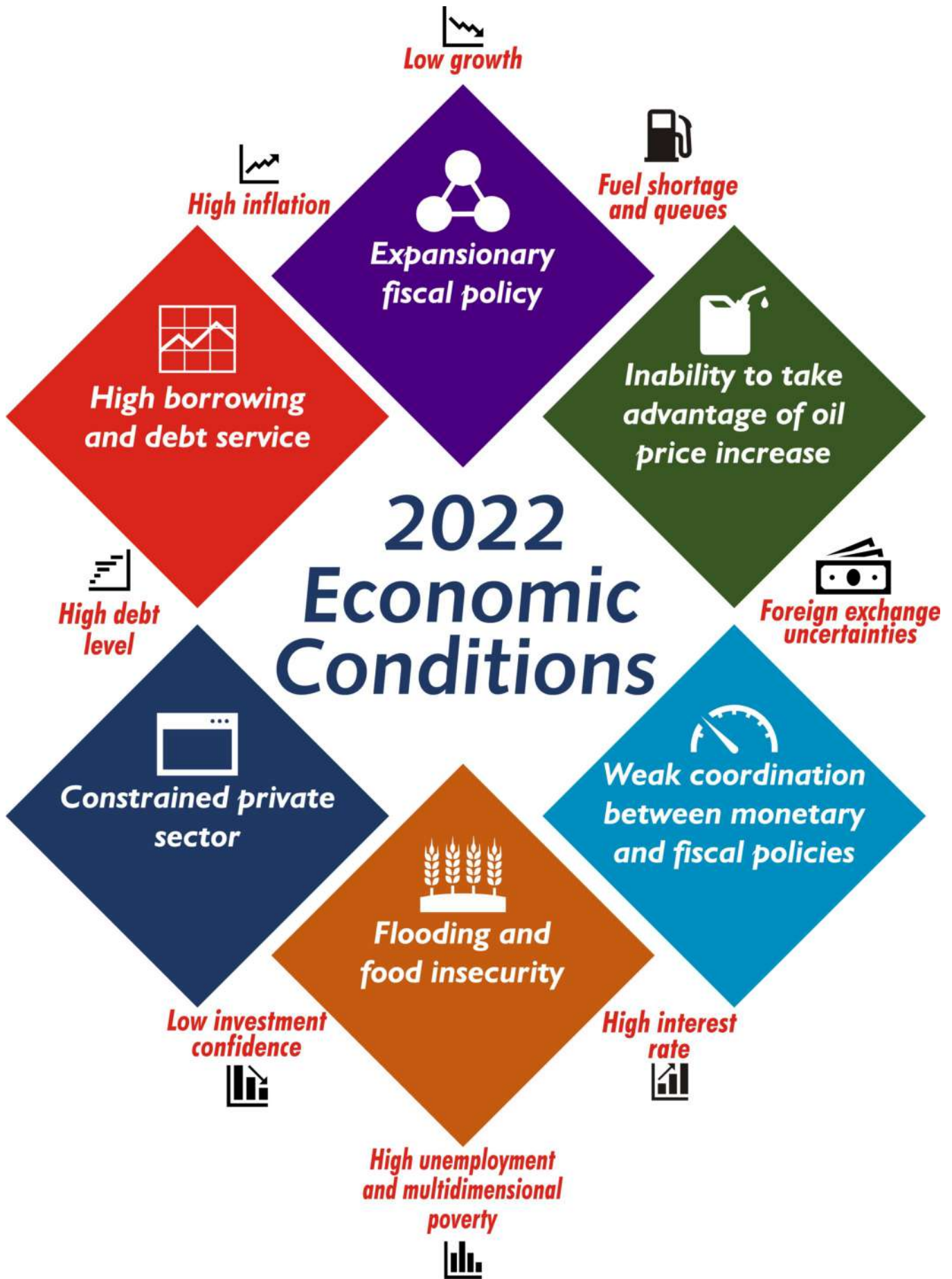
In this January 2023 edition of our Analysts’ Monthly Review, we have decided to reproduce the key messages of the Webinar in *infographics*. This is to give an easy-to-understand overview of the event outcomes and allow for easy reference. Specifically, we have representations for each of the following:

1. 2022 Economic Conditions
2. 2023 Outlook
3. Key Policy Actions for 2023
  - 3.1. Macroeconomic policies focus
  - 3.2. Public capital and citizens’ welfare
  - 3.3. Public policies

The full communique is re-presented in the appendix of this Review for your reading pleasure. We hope our readers will find this information useful in planning for the new year of 2023.

*Happy New Year!*

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# Key Policy Actions for 2023

## Macroeconomic Policies Focus



**Make fiscal spending more efficient to effectively address rising inflation**



**Commit to implementing investment-friendly environment**



**Harmonize foreign exchange rates for certainty**



**Make businesses more competitive to generate foreign exchange**



**Align monetary policy to macroeconomic objectives and minimise political interference**



**Align annual budgets with National Development Plans**



**Avoid falling into debt trap and its consequences**

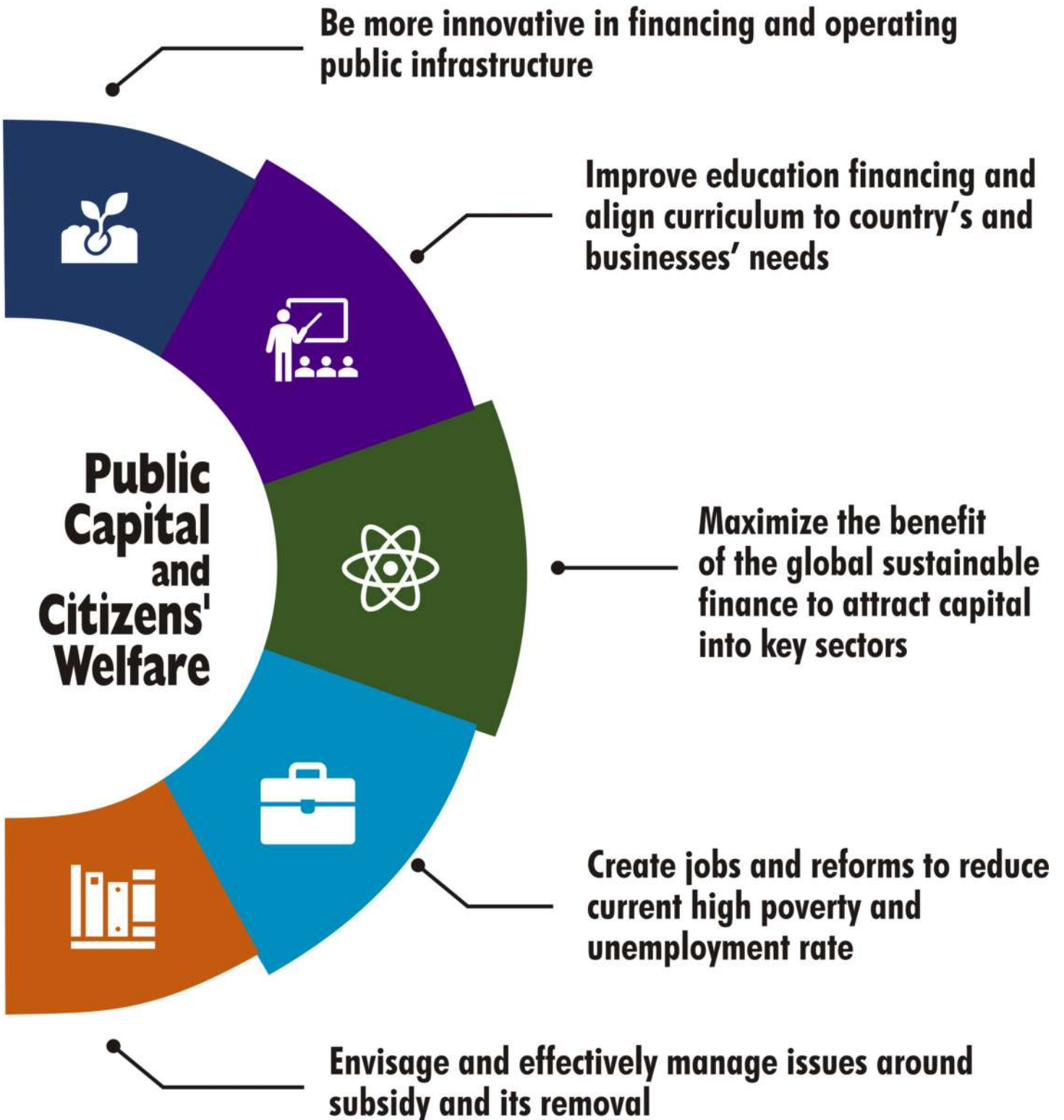


**Make trade and industrial policies more effective**



**Ensure a coordinated monetary and fiscal policies**

# Key Policy Actions for 2023



# Key Policy Actions for 2023





# APPENDIX

**COMMUNIQUÉ ISSUED AT THE ANALYSTS DATA SERVICES AND RESOURCES (ADSR) 2022 YEAR-END WEBINAR (MAIDEN EDITION) THEMED “2023 IN PERSPECTIVE”, ON THURSDAY, DECEMBER 22, 2022**

1. ADSR had a successful year-end webinar, themed, “**2023 IN PERSPECTIVE**” on Thursday, 22<sup>nd</sup> of December, 2022. The webinar gave a review of the economic and socio-political events and trends during the current year and discussed outlook of what to expect in 2023, with practicable recommendations for policymakers, businesses and citizens.
2. The presentation gave the background to the theme while panel discussions and Questions and Answers from participants provided further insights on the subject matter. Hence, this communique serves as a reference point for the discussions on the Nigerian economy as it summarises major issues discussed in the webinar and recommendations are expected to form policy inputs.
3. The background presentation given by the Managing Director and Chief Economist of ADSR, Dr. Afolabi Olowookere, highlights some of the major developments in the year, ranging from; i) Rising global & domestic inflation; ii) Weak growth; iii) Russia- Ukraine war and commodities prices; iv) Floods impact on commodities’ supply; v) Increased poverty and unemployment; vi) Widening foreign exchange differential; vii) Unsustainable debts and financing; viii) Increased call for fuel subsidy removal; ix) Naira redesign and cash withdrawal policy and x) Election campaign kick-offs.
4. The presentation provided specific insights into the rising rate of inflation across several economies of the world, of which Nigeria is not an exception. Inflation rates in the UK and USA were cited to have risen to an all-time high. The rate of 9.1% in June and 11.1% in October, 2022 marked the highest in about 40 years in USA and the UK respectively. In effort to combat this menace, monetary authorities in these economies and the rest of the world have had to hike interest rates several times.
5. On the domestic scene, inflation rate rose to 17-year high for the 10<sup>th</sup> consecutive month in November, 2022. Faced with this difficult situation which challenges one of the core objectives of the apex bank, the Monetary Policy Committee (MPC) of the bank raised the MPR four consecutive times this year to 16.5%.
6. Although it was noted that such multiple rate hikes may have immediate, but only temporary, impact on inflation, other intervention programmes of the apex bank, the financing of fiscal deficits and supply side constraints will reduce the effectiveness of the MPR hike.
7. Furthermore, the presenter expressed concerns that the output growth experienced in the year especially that of the third quarter is still weak, especially as growth outlook in the short to medium term is around the low value of 3%.
8. The effect of the Russian-Ukraine war was also observed to have spilled over to most economies of the world as the warring nations account for about 30% of global grain exports while Russia is a major exporter of crude oil. As a result of the war, crude oil prices traded above \$100 reaching a 14-year high since the financial crisis of 2008. A potential blessing for Nigeria, being an oil producing nation but for low level of production, rising cases of oil theft and subsidy payments. The presenter also discussed the issue of fuel shortage and flood which Nigerians had to face during the year. These two events further exacerbate supply chain disruptions and contributed to rising prices of goods and services.
9. High poverty rate in the country was discussed extensively using the latest data from the Multi-dimensional Poverty Index which released by NBS in November. The data revealed increased poverty rate in Nigeria as 63% Nigerians are now poor from 40.1% in 2018. This was discussed alongside the rising rate of unemployment which is currently at 33.3% as at 2020 and projected to be higher by the time a new estimate is released in 2023. High rate of poverty and unemployment in Nigeria have eroded Nigerians’ purchasing ability, corporate performance, government revenue and in turn, citizens’ welfare in a vicious cycle.
10. The presentation further discussed the widening differential between official and parallel exchange rates and called for innovativeness on the part of the CBN to address the challenge, perhaps learning from the adjustment accompanying the creation of the I&E Window in April, 2017. The new RT200 rebates programme can partly address the problem, but the fact that it represents another window may further distort the market.
11. On the issue of rising debt stock and unsustainable deficit financing, the presentation sounded warning about debt creation without a corresponding asset. Innovative ways of financing and operating public infrastructure were also highlighted as necessary for Nigeria not to fall into a debt trap.
12. The presenter expressed some confidence that the CBN is willing to further adjust its stance on the currency redesign and cash withdrawal policy as shown in the recently-released revised guideline that increases cash withdrawal from N100,000 to N500,000 and from and N500,000 to N5million for individuals and corporate organisations respectively. However, he advised that CBN needs to avoid political interference in its policies as



much as possible and that monetary policies should be seen as targeting the set macroeconomic objectives primarily.

13. Another major issue discussed is the kick-off of electioneering campaign for the 2023 general elections which came with a lot of reactions especially as supporters of major contenders have started pushing the course of their preferred candidates by adopting every possible means. Based on this, it was suggested however that ahead of the elections, measures should be put in place to handle the reactions of losers and supporters so as to avert the occurrence of civil unrest following the election.
14. Lastly, the presentation gave a snapshot of the stock market performance, showing mixed performance across sectors of the economy, but generally positive. The ASI remained positive till date with the industrial and oil and gas sectors as the major gainers. Major losers in the market are the insurance and the consumer goods sectors.
15. The presenter concluded by itemising factors that may shape the global and domestic economy in year 2023. For the global economy, these include: continued fight against inflation, possibility of recession in the US and other nations, cut in global interest rate, high commodities prices from Russia-Ukraine war, crash of oil price if/when the war ends, and climate change and energy efficiency issues. In the domestic economy, factors to consider include, the reactions of supporters and losers of the 2023 elections and how that is managed, post subsidy removal era and issues, local oil refining capacity and PIA impact on federation account, innovative and efficient infrastructure and education sector financing, government revenue generation and debt management, effect of the recent CBN currency policies on domestic trade and informal financial services.
16. Following the presentation, the Webinar benefitted from insightful discussions of the panellists; comprising Professor Uche Uwaleke (President, Association of Capital Market Academics), Mrs Toyin Sanni (Vice Chair/CEO, Emerging Africa Group); Professor Bright Eregha (Pan-Atlantic University), Dr. 'Segun Omisakin (Chief Economist, Nigerian Economic Summit Group – NESG) with Mr. 'Dotun Seyingbo (Private Sector Specialist, World Bank) as the moderator. Some of the major discussion points are:
  - a. Nigeria continues to be at a cross-road in managing the economy which has lost investment confidence and critical decisions need to be taken timeously to reverse the current trend.
  - b. Capital flows into an economy can be likened to blood in human beings. This has been declining in terms of foreign direct investment (FDI) and foreign portfolio investments (FPIs) due to structural problems.
  - c. Nigeria's effort to diversify the economy from oil to other productive sectors has not recorded much success.
  - d. There is poor coordination between monetary and fiscal policies. While one is contractionary, the other is expansionary. The results are the observed weak macroeconomic outcomes.
  - e. Unlike many other oil producing countries, Nigeria failed to take advantage of the increase in global crude oil prices thereby worsening its domestic challenges.
  - f. The year 2022 has been very challenging for the private sector due to inconsistent and inefficient macroeconomic policies.
  - g. Nigeria's economic performance in 2023 will most likely come lower than 2022, being the election year.
  - h. Outlook for the currency is challenging and CBN's effort in managing the currency by depleting the reserves is not sustainable.
  - i. High and rising inflation is affecting the Nigerian economy. The current approach of solving it from the demand side by raising interest rate can be counterproductive since it is more of supply-driven.
  - j. Budget as an instrument of public policy is becoming more and more expansionary, both at the national and sub-national levels. There are current efforts to raise capital budgets at all levels, which may be an indirect way of financing 2023 elections. This trend may further raise inflation in the first half of 2023 and put more pressure of foreign exchange.
  - k. Some commonalities are observed from the major presidential candidates' economic manifestoes. They are all favourably disposed to removal of subsidy, restructuring and partnership with private sector to finance development.
  - l. Expectation of peaceful, free and fair election will further determine the direction of the economy in 2023.
17. From the presentation, panellists' discussions and comments sessions, below are some of the key resolutions and recommendations from the Webinar:
  - a. In order to sustainably address inflation, Nigeria needs to address the supply side constraints and make fiscal spending more efficient.
  - b. Nigeria needs to urgently address its high rate of poverty and unemployment as they affect businesses' profit-

ability, government revenue receipt and general citizens' welfare in a vicious cycle.

- c. The recent RT200 rebates programme of the CBN is a step that can only partly address the country's exchange rate problem, but instead of always creating additional windows to address specific problems, Nigeria needs to make its businesses competitive to generate foreign exchange and unify its exchange rate.
- d. As a short-term measure to narrow the widening exchange rate differential, the CBN should be more transparent in the allocation of its scarce FX to businesses. For example, the CBN should periodically publish the list of businesses benefiting from the incentives and establish clear rules governing the process of allocation.
- e. The country should be more innovative in financing and operating public infrastructure and lessons can be learnt from successful countries, to avoid falling into a debt trap.
- f. The country's apex bank needs to avoid political interference in its policies as much as possible and monetary policies should be seen as targeting the set macroeconomic objectives primarily.
- g. Ahead of the elections, measures should be put in place to handle the reactions of losers and supporters so as to avert the possible occurrence of civil unrest following the election.
- h. Investment in education and redesign of educational curriculum for effective human capital development is imperative to unleash the power of digital technology to create values for the people.
- i. Nigeria needs to tap into the global sustainable finance drive to attract capital into key sectors.
- j. There is an urgent need for a consistent policy harmonization between the country's monetary and fiscal policies; also, to be aligned with trade, exchange and income policies.
- k. Government policy actions must adopt the approach of consultation, execution, communication and evaluation to engender public and investment confidence.
- l. The issue of subsidy removal should be handled with care as it may lead to social uproar while issues at the Niger Delta and their agitations needs to be addressed.
- m. Nigerian States need to improve the ease of doing business environment at the sub-national levels to attract both domestic and foreign investment inflows.
- n. Investment friendly policies should be pursued with rigor to attract foreign and domestic investors thereby aiding the supply-side performance.
- o. Measures to raise the absorption capacity should be initiated and implemented to the letters.
- p. Measures to reduce high cost of transportation including the ongoing infrastructure development should be sustained.
- q. Reducing Nigeria's cost of governance is critical for its fiscal sustainability, particularly as domestic resources mobilisation is low..
- r. There is the need to align Nigeria's annual budgets to its Development Plans and Sub-national Plans should also draw link with national plans for effective implementation outcomes.
- s. In the medium to long term, efforts should be geared to tame the current population growth trend if the country is to benefit from its growth trajectory
- t. The current political structure is counterproductive and induces sharing the national cake instead of baking new cake; thereby calling for urgent restructuring that is nationally beneficial.
- u. Electioneering campaigns should be issue-based and targeted at educating the electorates to vote the right candidate.
- v. Ability of the government to walk the talk will determine the response of the private sector going forward into the new year.

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