

January 18, 2021



# Nigeria Strategy Report

H1 2021

Global Economy and Markets

## MEA Region: Reeling Through a Rough Patch

### Executive Summary

At the start of H2:2020, we expected growth in the SSA region to remain bleak over the rest of the year. Our expectation was largely hinged on the impact of travel restrictions, border closures and nationwide lockdown on the economies. This was the case as whilst there were eases in GDP contractions across the region, economies still reel from the impact of the COVID-19 pandemic. Over in MENA, we expected economies to contract as oil exporters suffered effects of lower oil receipts, whilst oil importers witnessed slower activities in the tourism sector as well as spillover of slow economic growth in advanced economies. As expected, growth in the MENA oil exporting region remained subdued, on the back of crude oil production cuts and the pandemic effects. Currencies in the SSA and MENA posted mixed performances in the second half of 2020, as the fall in US Dollar boosted performances in some countries across the region. As some countries gained benefits from the IMF, amongst other international organizations, FX reserves were supported.

The SSA region is expected to see a V-Shaped rebound in 2021. Regional activity dropped significantly, especially in the second quarter of 2020 due to the negative impacts of the COVID-19 pandemic on tourism, commodities, amongst other sectors. A recovery is however expected in 2021, hinged on improvements in commodity prices and exports. This recovery is however expected to be gradual and uneven across the region as there is relatively limited policy space within which to sustain fiscal expansion. This means that concerns surrounding debt sustainability caps the potential for further fiscal intervention. The IMF forecasts the SSA's Real GDP to grow by 3.1% in 2021 (-3.0% in 2020). With local consumption and crude oil prices in 2021 expected to improve, MENA countries should recover in 2021. Oil-exporting countries are expected to witness increased energy demand, compared to 2020, while tourism and air travel picks up. The IMF expects oil exporters to grow by 3.3% in 2021 (-6.0% in 2020).

***In this report, we look at the major themes that dominated Sub-Saharan Africa, Middle East and North Africa landscape in 2020 as well as our outlook for 2021.***

### *Recessions Recorded Across Sub Saharan Africa*

Nigeria's economy slipped into a recession in the second half of the year as its GDP contracted by 3.62% YoY in Q3:2020. Considering a GDP contraction of 6.10% YoY recorded in Q2:2020, the economy officially plunged into its second recession within five (5) years. The contraction in Q3:2020 was off the back of a 13.89% YoY decline in the oil sector and a 2.51% YoY decline in the non-oil sector. The negative growth in oil GDP was reflective of the fall in daily crude oil output to a four-year low of 1.67MMbpd by the National Bureau of Statistics (NBS). As Nigeria had to adhere to the OPEC supply cuts agreed in April, taps had to be closed, limiting production levels in the country's upstream. Non-oil economy's contraction reflected the impacts of the COVID-19 pandemic on the economy, as negative growths were recorded in transportation and storage (-42.98%), accommodation and food services (-22.61%) and education (-20.74%).

Over in South Africa, the easing of the imposed lockdowns due to the COVID-19 pandemic mirrored in its Q3:2020 GDP, as it recorded an ease in contraction to -6% YoY (from -17.5% YoY in Q2:2020). Now in a recession, impacts of South Africa's high unemployment rates and declines across sectors were only exacerbated by the impacts of the pandemic. On a QoQ basis, GDP grew by 66.1% in Q3:2020, reflective of the V-shaped recovery in consumer spending, as Trade (+137.0% QoQ), Transport and Communication (+79.3% QoQ), Electricity, gas, and water (+58.0% QoQ) drove GDP.

Like in Nigeria, oil constitutes a huge chunk of Angola's government revenue, rendering it's economy vulnerable to shocks in the global oil market. The decline in oil prices strained its economy, as it recorded an 8.8% contraction in GDP in Q2:2020. This marks the fourth consecutive quarter of decline in GDP growth. The lower oil exports and receipts for Angola influenced its Fitch credit rating, as the agency downgraded it to 'CCC' in September. In response, fiscal and monetary measures have been put in place to mitigate the adverse impacts of the COVID-19 pandemic such as a 12-month VAT credit for imported goods, deferred payment option for social security contributions, as well as provision of liquidity support to banks. In addition, the International Monetary Fund (IMF) provided \$1 billion in lending to Angola in September to help cushion the effects of the pandemic on the economy.

In other economies across the SSA, the pandemic has shown to have had a significantly negative impact on most sectors. Ghana recorded its first quarterly negative growth in about three (3) decades as it's Q2:2020 GDP contracted by 3.2% YoY. This set up the economy to slide into a recession as the West-African nation recorded a contraction of 1.1% YoY in Q3:2020.

The slowdown in contraction during Q3:2020 (-1.1%) was a result of the Ghanaian government easing restrictions on initially implemented lockdowns to manage the spread of the virus. This boosted business activity in the country, and as a result, softer contractions in Q3:2020 were recorded on the Services sector (-1.1% vs -2.6% in Q2:2020), Hotels & Restaurants (-62.1% vs -79.4% in Q2:2020), amongst others. The Manufacturing sector rebounded and grew by 4% in Q3:2020 (vs. contraction of 13% in Q2:2020). With the GH¢100 billion Ghana COVID-19 Alleviation and Revitalization Enterprises Support program launched by the presidency, a recovery is expected in 2021, and this should support businesses as they crawl out the effects of the pandemic. The IMF expects Ghana's Real GDP to grow by an average of 0.9% in 2020, and 4.2% in 2021. In Kenya, the economy dove into a contraction, recording a negative growth rate of 5.7% YoY in Q2:2020 (Q1:2020 – growth of 4.9%) This was following negative growth rates in Accommodation & Food services (-83.3% YoY), Education (-56.2% YoY) and Professional, Administrative and Support services (-15.7% YoY).

**Table 1: Macro indicators among selected Sub-Saharan African countries**

	Nigeria	South Africa	Angola	Ghana	Kenya
Monetary Policy action	-200bps	-300bps	Unchanged	-150bps	-150bps
Q3 GDP Growth (YoY)	-3.62%	-6%	NA	-1.1	NA
Avg Inflation (2020)	13.21%	3.03%	22.17%	9.93%	5.22%
Avg Inflation (2019)	11.34%	4%	0.197	0.0983	0.047

Source: Bloomberg, ARM Research

### ***Battered Oil Markets Reflects in MENA Exports***

Since Saudi Arabia's GDP contracted by 0.5% YoY in Q3:2017, it has been unable to record YoY growth. Q3:2020 GDP contracted by 4.6% (Q2:2020 – contraction of 7% YoY), reflecting the continued impact of the pandemic on the economy. Saudi Arabia reels from the imposed lockdowns, low oil prices and crude oil production cuts, as the negative growth in Q3:2020 was also driven by weakened consumption. In Q3:2020 however, the economy picked up by 1.2% on a QoQ basis as expected, following eases in lockdowns and increase in economic activity. The oil sector contracted by 8.2% YoY, as oil output was limited amidst the OPEC+ production cuts. Saudi Arabia printed average crude oil production of 8.77MMbpd in Q3:2020 (9.21MMbpd in Q2:2020) according to OPEC. Non-oil sector also fell by 2.1% YoY, reflecting contractions in Storage and Communication (-6.3%), Manufacturing (-10.1%), and Mining & Quarrying (-7.2%).

Algeria's Q1:2020 GDP figures show a YoY contraction of 3.9%. We mentioned in our H2:2020 strategy outlook that the country's economy was expected to be hit by the shocks of the spread of COVID-19 and the sharp decline in oil prices – especially as Algeria has its oil sector accounting

for c. 30% of its GDP and c. 93% of total export earnings. This was the case as Algeria's energy sector contracted by 13.4% YoY in Q1:2020. The global health crisis saw the Algerian services sector contract by 2.8% in Q1:2020, while its Transport and communications sector contracted by 4.8%. With c. 60% of its state budget funded from oil, Algeria has continued to strive to diversify its non-oil sector. Of these efforts is the allowance of its private sector to set up airline services and banks. As exports have significantly dwindled, Algeria's foreign currency reserves now hovers at about the \$50 billion mark, shedding more light on the need to diversify its economy. IMF expects an average Real GDP contraction of 5.5% for Algeria in 2020, and a 3.2% growth in 2021.

Over in Egypt, economic growth came to a halt in the second quarter of 2020, as GDP contracted by 1.7% in Q2:2020 – the first quarterly contraction since Q1:2011. In Q3:2020, the economy expanded by 0.7% as lockdowns were eased and unemployment levels slowed down to 7.3% (vs 9.6% in Q2:2020). The Egyptian economy remains subdued by the impacts of the pandemic and low oil prices, but sustained recovery is expected for the North African nation, especially considering the stimulus packages and accommodative monetary stance employed by its government. In November, the Central Bank of Egypt (CBE) cut key interest rates for a second consecutive time, bringing overnight lending rate to 9.25% and overnight deposit rate to 8.25%. Rates were left unchanged at its last Monetary Policy Committee meeting in December. With lower output from Egypt's manufacturing and tourism sectors, real estate tax relief was given to players within those industries. These two industries contribute c. 30% of the Egyptian economy and should drive growth when healthy. The Egyptian Ministry of Finance also issued a guarantee of £3 billion to be provided to the hospitality and tourism industry. To ease the adverse impact of COVID-19 on the economy, stimulus packages amounting to EGP 100 billion was announced in May 2020 for distribution across various sectors. The IMF projects a Real GDP growth of 3.5% YoY in 2020, and 2.8% YoY in 2021.

Tunisia continued to report negative growth in GDP after it went into recession in Q2:2020. Second quarter GDP contracted by 21.7% YoY. Just like other tourism dependent countries such as Seychelles and Morocco, Tunisia's economy took a beating due to travel restrictions. The economic slowdown followed a contraction in the hotels, cafes, and restaurants sector (-33.6% YoY). Transportation (-25.5% YoY) and manufacturing (-3.2% YoY) also recorded negative growth in Q2:2020. Following the easing in lockdowns initially imposed due to the COVID-19 pandemic, Q3:2020 posted an ease in GDP contraction to -6% YoY. The IMF projects Tunisia's Real GDP growth to come in at -7.0% YoY in 2020, and 4.0% YoY in 2021.

**Table 2: Overview of macro indicators among selected MENA countries**

	Saudi Arabia	Algeria	Egypt	Tunisia	Morocco
Monetary Policy action	-125bps	NA	-350bps	-100bps	-75bps
Q3 GDP Growth (YoY)	-4.60%	NA	0.70%	-6.00%	-7.20%
Avg Inflation (2020)	3.43%	1.84%	5.06%	5.67%	0.73%
Avg Inflation (2019)	-0.12%	2%	5.73%	6.30%	0.75%

Source: Bloomberg, ARM Research

### *Uneven Currency Performances Across the Regions*

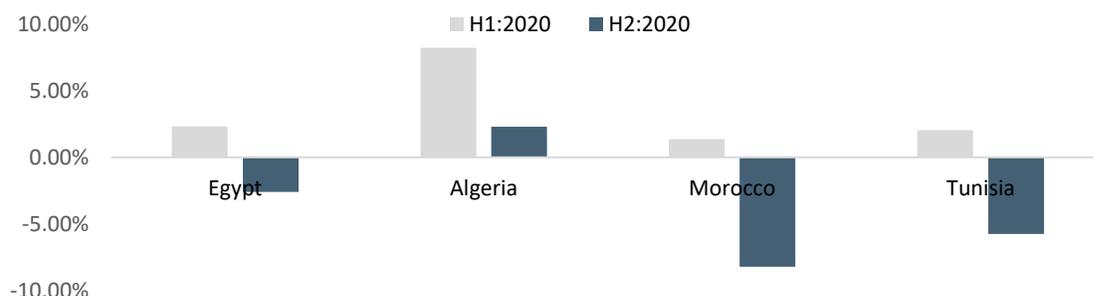
Currencies across the SSA posted mixed performances in the second half of 2020. The South African Rand in H2:2020 gained 15.09% against the US Dollar as economic activity in South Africa picked up. This trend was also supported by the increased demand for gold, alongside other commodities. As the number of COVID-19 cases declined in South Africa, amongst other Emerging markets (EM), forex investors appear to take more risks in EM as similar trends were witnessed on the Mexican Peso and Singaporean Dollar. Low interest rates in advanced economies also led investors to scout for higher yields in EMs. We believe the sentiment that a Joe Biden administration's more diplomatic approach to international relations might see the US currency dwindle has weakened the dollar in recent months (US Dollar fell by 8.06% in H2:2020), thereby appreciating the Rand. Over in Angola, its currency – the Kwanza maintained its weak state against the US Dollar throughout H2:2020, as in addition to the production cuts via the OPEC+ agreements, its struggles to recover from the effects of the fall in global oil prices. The Angolan Kwanza fell by 13.13% over H2:2020 (H1:2020 – fell by 13.08%). Reduced external receipts, pinning the Kwanza in a southward trend has led to increased pressure on external and fiscal buffers. Thus, Fitch downgraded Angola's Long-Term Foreign-Currency (LTFC) Issuer Default Rating (IDR) from a 'B-' to a 'CCC'.

The pressures on Nigeria's Central Bank from the impacts of the pandemic led to devaluation of the Naira. Between March and August, the official rate fell from NGN306/USD to NGN379/USD on the 6th of August 2020 (a -22.55% depreciation). The IEW rate also fell to NGN410.25/USD, edging it closer to the parallel market rate of NGN470/USD.

With the upward revision, we should see increased demand at the IEW exchange rate window, thereby easing pressure on the parallel market. Having a more market reflective rate under the Central Bank's supervision via the IEW will give guidance as to what the unified exchange rate should be. Nigeria's pursuance for a unification should help in acquiring new credit from international institutions, especially as it strives to revive its economy. Nigeria's FX reserves lost 2.29% in H2:2020 to close at ₦35.37bn.

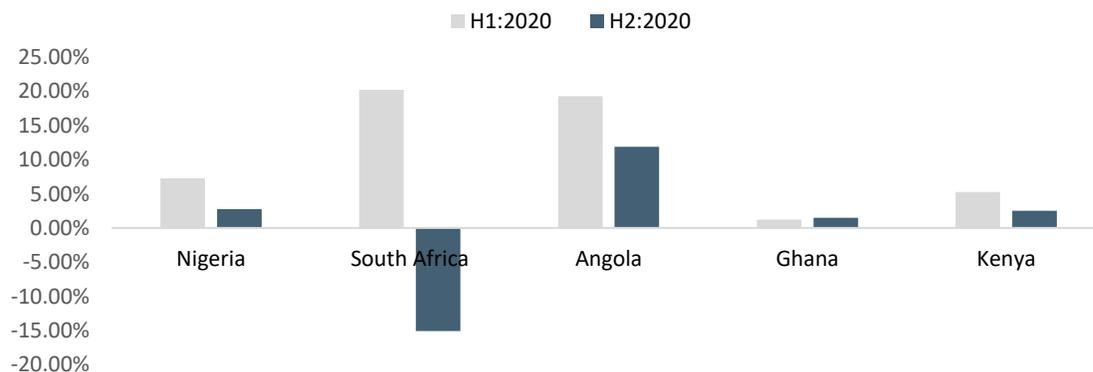
In MENA, mixed performances were seen across the region, as the Egyptian Pound (EGP) posted a 2.33% appreciation against the USD in H2:2020. Amidst a tough year, Egypt has been able to maintain some level of stability in its net international reserves. This coupled with the falling dollar in H2:2020 has led to an improvement in the performance in its local currency against the dollar. With inflows from oil exports, remittances, and tourism limited in 2020, the Egyptian Central Bank has resorted to using its FX reserves to manage the EGP. The Egyptian government’s sovereign bond, as well as its loan from the IMF has supported the country’s foreign reserves. Provision of net foreign currency assets in Egypt also helped limit capital flight. The Algerian Dinar lost 2.57% against the US Dollar in H2:2020, reflecting its continued struggle to keep its economy afloat. Oil accounts for over 90% of Algeria’s revenues, and with the fall in crude oil prices, the North African nation has had to devalue the currency, subsequently spiking high inflation rates. In Morocco, the Dirham gained 8.27% against the dollar during the second half of 2020, reaching record highs. This reflected the falling dollar and effort by the Moroccan national bank to support its economy as it injected stimulus, including MAD104.4 bn in H2:2020.

**Figure 1: Currency performance of MENA countries**



Source: Bloomberg, ARM Research

**Figure 2: Currency Performance of SSA countries**



Source: Bloomberg, ARM Research

### *Higher Consumer Prices Pressure Inflation*

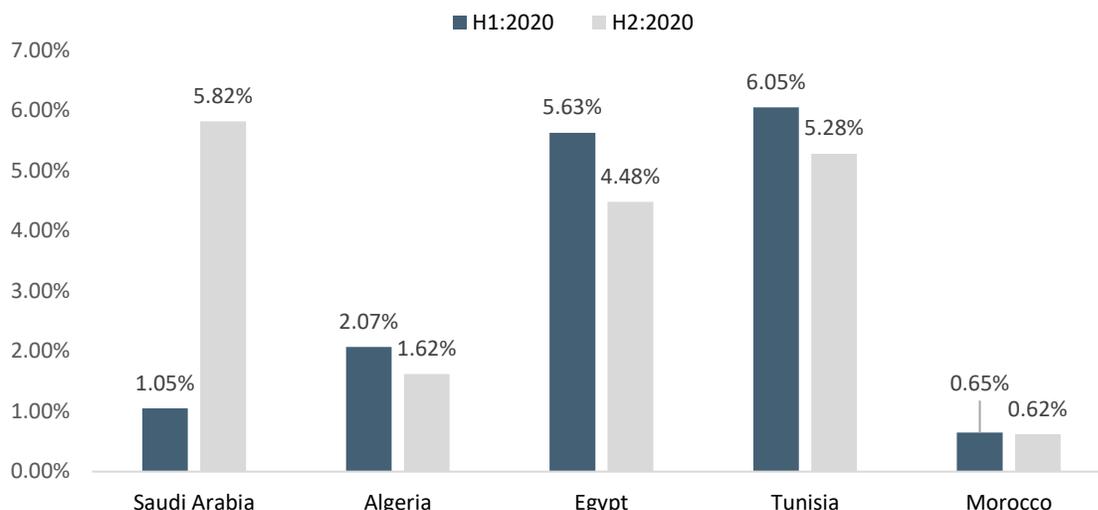
SSA inflation reflected the pressures the global economy experienced in 2020. Whilst nations like South Africa managed to temper inflation to a degree, the pressures on other nations like Nigeria have not notably waned in H2:2020. South Africa's inflation rate rose to 3.2% in H2:2020 (2.2% by the end of H1:2020). In October 2020, inflation reached a 7-month high (3.3%) following increases in the prices of Food and non-alcoholic beverages, Transport goods and services and others. Even with the northward trend, the inflation rate remains closer to the lower band of South Africa's Central Bank set target of 3% to 6%. As Angola is significantly dependent on imported goods, the depreciation of the Kwanza in H2:2020 (-13.13%) put pressure on consumer prices and ultimately, inflation. With November annual inflation at 24.9% (17.95% in January 2020), it has been on a consistent rise in 2020 as the Angolan economy reels from the impact of the low crude oil prices.

Over in Nigeria, inflation sustained its upward trend, reaching 14.89% in November 2020 (the highest in 34 consecutive months). Land border closure, insecurity, as well as flooding in Nigeria's food producing states led to the spike in food prices during the year. Core inflation has also risen in H2:2020, reflecting the hike in prices of Hospital and Medical services, Air transport, Passenger transport by road, Pharmaceutical products and more. The increase in electricity tariffs during the year also contributed to this effect.

The higher prices of petroleum products, following the cessation of the petroleum subsidy and under-recovery regime, majorly contributed to the rise in cost of road transport. Social distancing measures due to the COVID-19 pandemic also led to increased air travel costs, as airline operators sought to maintain profit margins.

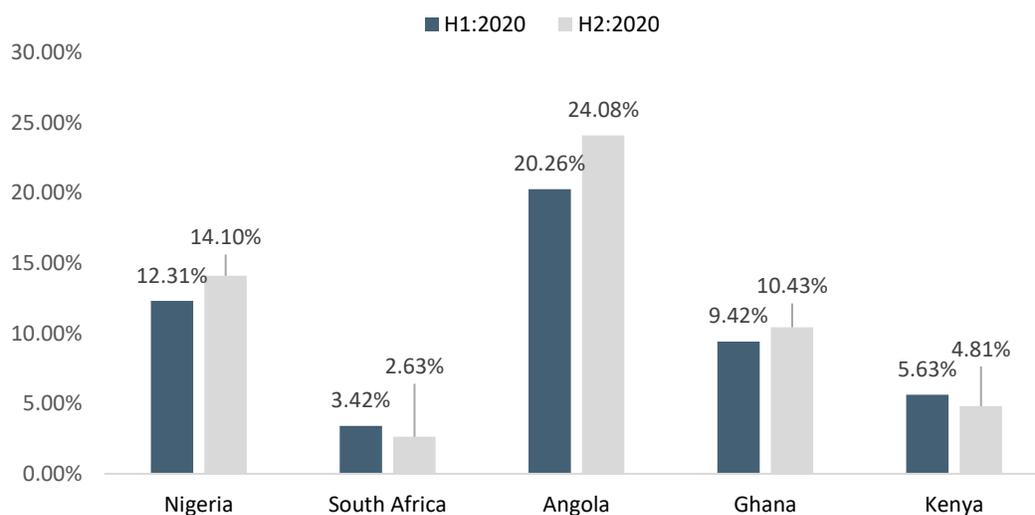
In addition to the rising price pressures in Egypt, The CBE cut interest rates twice in H2:2020 (September and November), thereby putting some pressure on inflation in H2:2020. After falling to 3.4% in August, inflation rose to 3.7%, 4.5% and 5.7% in September, October, and November 2020 respectively. The North African nation's apex bank however appears to want to maintain current interest rates to sustain inflows to its debt markets. In Tunisia, annual inflation eased to 4.9% as at November 2020 (5.8% in June 2020). We link this to the decline in local demand for products due to weakened purchasing power of the Tunisian masses, amidst rising unemployment levels (18% YoY). Meanwhile, Saudi Arabia recorded higher inflation in H2:2020 (5.8% in November 2020) after recording an average annual inflation of 1.05% in H1:2020. This reflects the higher prices of food and beverages, following the increase in VAT from 5% to 15% in July 2020 – hence the sharp surge in inflation from 0.5% in June to 6.1% in July 2020.

**Figure 3: Inflationary trend in selected MENA**



Source: Bloomberg, ARM Research

**Figure 4: Inflationary trend in selected SSA**



Source: Bloomberg, ARM Research

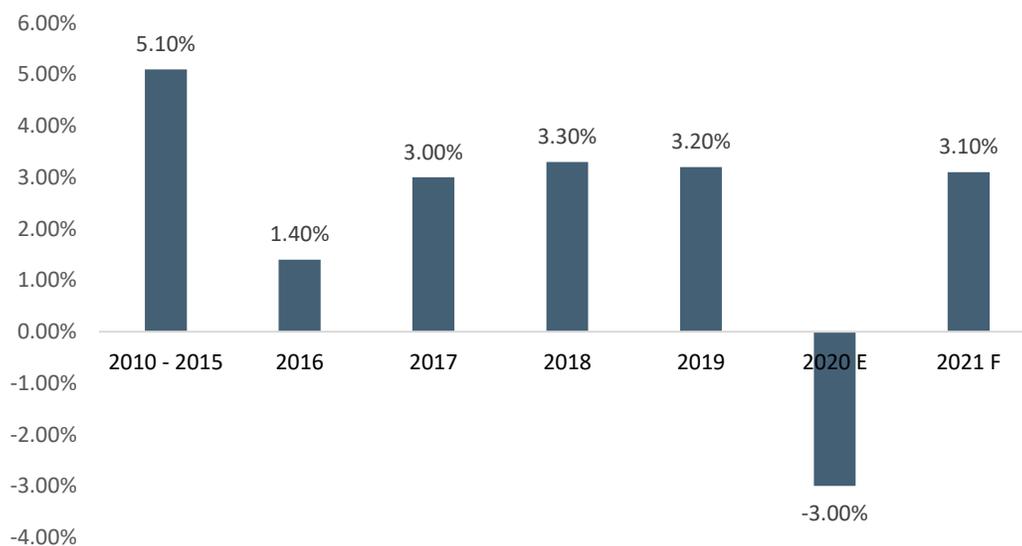
**Gradual and Uneven Recovery Expected in 2021**

The SSA region is expected to see a V-Shaped rebound in 2021. Regional activity dropped significantly, especially in the second quarter of 2020 due to the negative impacts of the COVID-19 pandemic on tourism, commodities, amongst other sectors. A recovery is however expected in 2021, hinged on improvements in commodity prices and exports. This recovery is however expected to be gradual and uneven across the region as there is relatively limited policy space within which to sustain fiscal expansion. This means that concerns surrounding debt sustainability caps the

potential for further fiscal intervention. The IMF forecasts the SSA's Real GDP to grow by 3.1% in 2021 (-3.0% in 2020).

Nigeria's economy is expected to grow by 1.7% in 2021 (-4.3% in 2020) by the IMF. Following the relaxation in lockdowns and the gradual recovery in crude oil prices, the 2020 contraction is expected to be reverted, but Nigeria's weak fundamentals make it highly vulnerable to external shocks. Rising inflation, insecurity, unemployment/underemployment, FX shortages, and other structural elements are poised to slowdown the West-African nation's economic recovery in 2021. The Central Bank of Nigeria's (CBN) pro-growth approach has led the apex bank to lower interest rates from 13.5% in May to 11.5% in September, encouraging more credit to the economy. We expect the MPC will retain its accommodative stance, moving forward.

**Figure 5: Trend in SSA growth (%)**

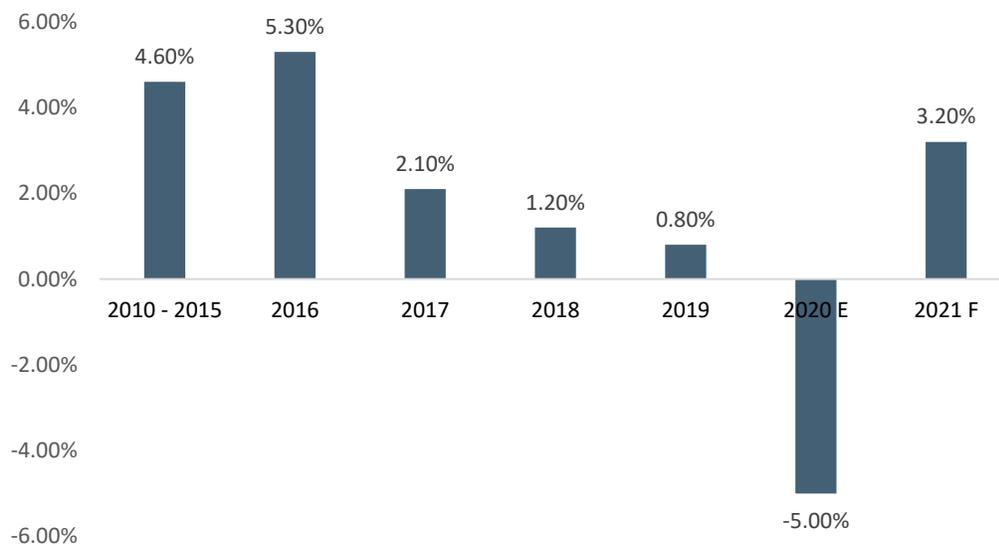


Source: IMF, ARM Research

Over in South Africa, the IMF forecasts growth of 3.0% in 2021 (-8.0% in 2020). Recoveries in manufacturing and mining are expected to drive economic growth in 2021. South Africa's gold reserves are also expected to continue to benefit from its safe-haven status. Unemployment levels, driven to a record high of 30.8% in Q3:2020, is however expected to limit household income, and subsequently consumer spending. Also, with its expanding debt-GDP ratio, South Africa's fiscal space for government spending narrows, hence potentially limiting economic growth in 2021. Angola's economy is set to partly rebound, as the IMF forecasts a 3.2% growth rate in 2021 (-4.0% in 2020). This is hinged on easier supply cut quotas from OPEC and more favourable oil market conditions than in 2020.

With local consumption and crude oil prices in 2021 expected to improve, MENA countries should recover in 2021. Oil-exporting countries are expected to witness increased energy demand, compared to 2020, while tourism and air travel picks up. The IMF expects oil exporters to grow by 3.3% in 2021 (-6.0% in 2020). In line with this, the world’s largest crude oil exporter, Saudi Arabia is projected to grow by 3.1% in 2021 (-5.4% in 2020). Elsewhere, economic growth of 3.2% are expected in both Iran and Algeria – the strongest in the region. With a new US president in Joe Biden, expectations of more diplomacy and subsequently, an ease in sanctions on Iran could raise its oil production and aid economic growth. This could however be a double-edged sword for the region, as Iran has not been a part of the OPEC supply cuts agreement.

**Figure 6: Trend in MENA growth (%)**



Source: IMF, ARM Research

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