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QUARTERLY

Q1 2023

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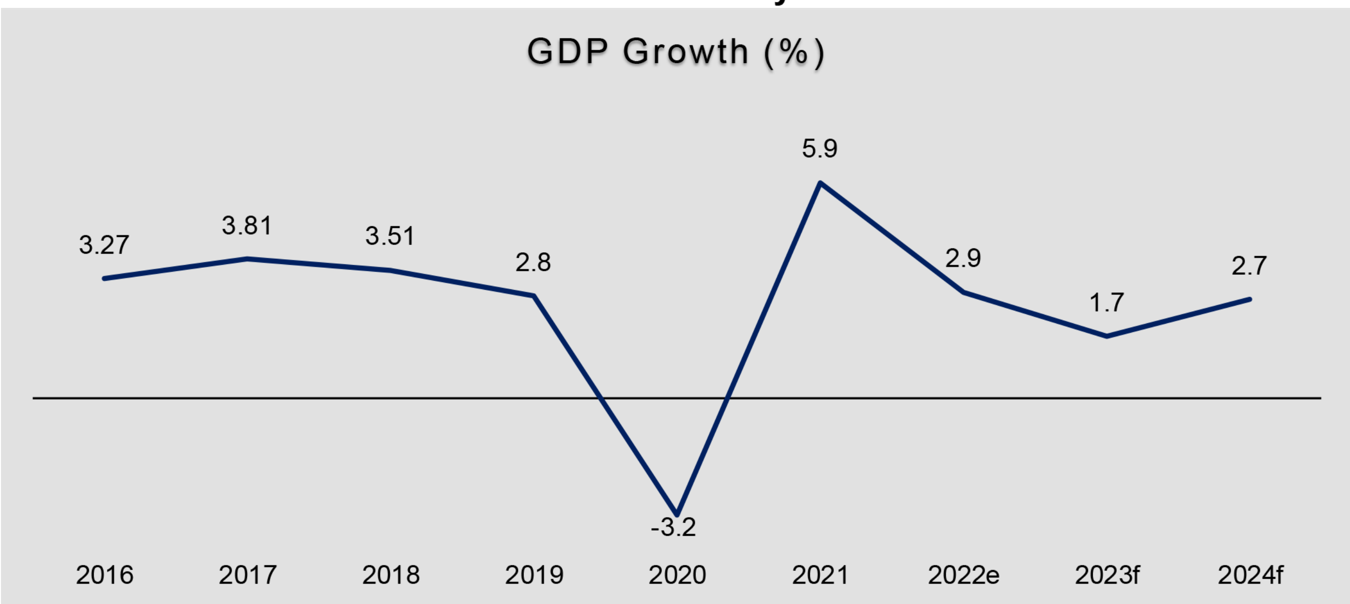
Section 0.1

GLOBAL ECONOMY

The global economy encountered significant impediments, primarily attributable to the Russia-Ukraine conflict, the lingering effects of the COVID-19 pandemic, and disruptions in the global supply chain. The slowdown was also experienced by major economies while emerging and developing economies faced an array of downward indicators as a result of the spillover effects of the global economic turbulence. These effects are evident in terms of declining capital flows, adverse external conditions, surging inflation rates, currency depreciation, and decelerating economic growth. Nonetheless, various economies managed to stay resilient in the year 2022.

According to the International Monetary Fund (IMF), the global economic growth rate stabilized at 2.9% in 2022. The IMF predicts a growth rate of 1.7% for 2023, which is expected to improve to 2.7% in 2024.

GDP Growth Rate & Forecast – Global Economy



Source: IMF

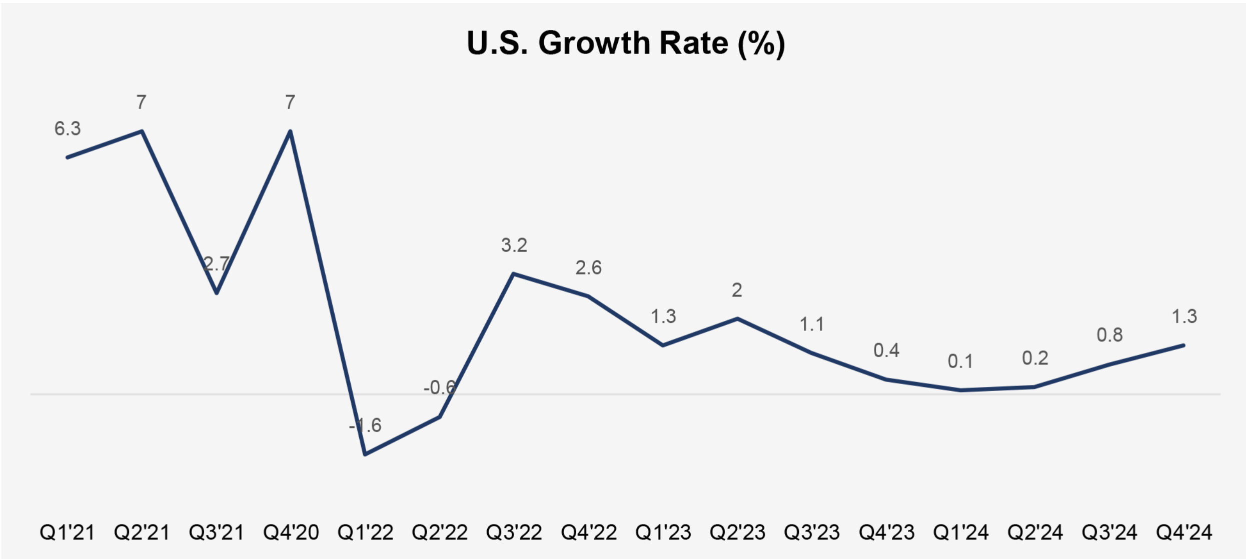
GLOBAL ECONOMY
UNITED STATES/EURO AREA

GDP Growth Rate & Forecast – U.S.A., Eurozone, and BRICS

United States

Gross Domestic Product (GDP) slowed by 1.1% in Q1 2023, which was a slight decline from 2.6% in Q4 2022. The inflation rate has witnessed a consistent downward trend in recent months, with the inflation rate standing at 4% in May 2023, compared to 4.9% in April 2023. This represents the lowest inflation rate recorded in two years. However, despite this, policymakers at the Federal Reserve have continued to increase interest rates, given that the inflation rate remains above their target range. The Fed's benchmark borrowing rate is currently pegged in the range between 5% - 5.25%. For the US, analyst projects a GDP growth rate of 0.2% and 0.8% for Q2 and Q3 2023 respectively.

GDP Growth Rate – United States of America



Source: Bloomberg
****Forecast: Q2'23 – Q4'24***

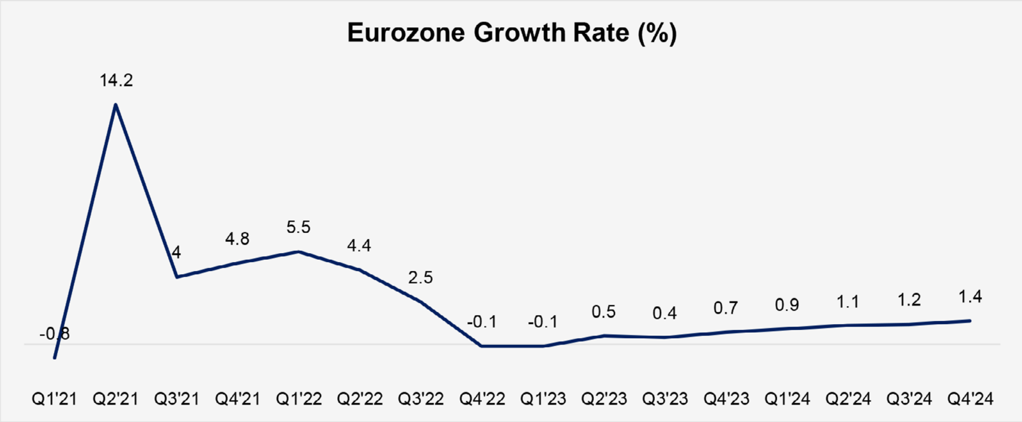
Unemployment rate as of March 2023 fell slightly to 3.5% from 3.6% the previous month, with the decrease coming as labor force participation increased to its highest level since before the COVID pandemic.

Euro Zone

EUROZONE

The euro zone economy fell into a technical recession in the first three months of 2023. The 20-member bloc reported GDP of -0.1% for the first quarter compared with the final quarter of 2022, when GDP also contracted by 0.1%. household consumption dropped by 0.3% in the first quarter, highlighting the pressures that consumers are facing amid higher prices. GDP is forecast to grow by 1.1% and 1.2% for Q2 and Q3 2023 respectively.

GDP Growth Rate & Forecast – Eurozone



Source: Trading Economics
****Forecast: Q2'23 – Q4'24***

The inflation rate in the Eurozone recorded a slowdown amid lower energy prices. Inflation in March 2023 was 6.9% on an annual basis, in February it was 8.5%. Inflation in the region reached a historical maximum of 10.6% in October 2022. The lowest rates were recorded in Luxembourg (3%), Spain (3.1%) and the Netherlands (4.5%). In Germany it was 7.8%, France (-6.6%) and in Italy (-8.2%). However, the Eurozone's inflation rate remained significantly higher than the European Central Bank's target of approximately 2%, leading policymakers to increase rates to the range of 2% to 2.75%. The World Bank's projections for 2023 and 2024 are expected to be weak, with growth rates of 0.5% instead of the previously projected 1.6%, due to the severe energy supply disruptions and persistent price hikes.

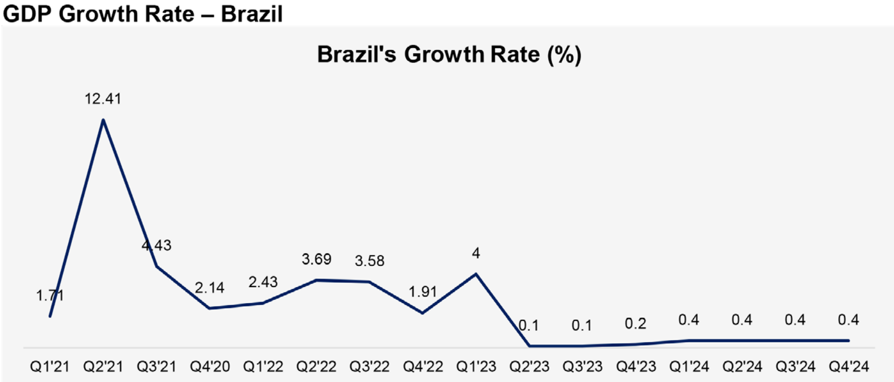
BRICS

The BRICS economy gained traction in 2022 as economic activities picked up post covid however, this tepid recovery was hampered by the residual effects of the ongoing crisis, high energy prices and currency depreciation amongst others. Among BRICS countries, India's GDP grew by 1.9% in the first quarter of the year, while Brazil and South Africa's economies recovered from contraction in Q4 2022 and grew by 1.9% and 0.4% respectively for the quarter.
The BRICS economies continue to suffer from higher inflation rates that surpass the target range, and the increased monetary policy rates that negatively impact their growth prospects.

Brazil

Despite being constrained by high interest rates, Brazil's economy recovered more than anticipated in the first quarter due to a growing agriculture sector. This paved the way for a more positive yearly outlook. GDP grew by 1.9% in Q1 2023 after the economy contracted by -0.1% in the previous quarter. Annually, GDP in the first quarter showed an increase of 4% compared to the corresponding quarter of the previous year. GDP is expected to grow by 0.1% for both Q2 and Q3 2023.

GDP Growth Rate – Brazil



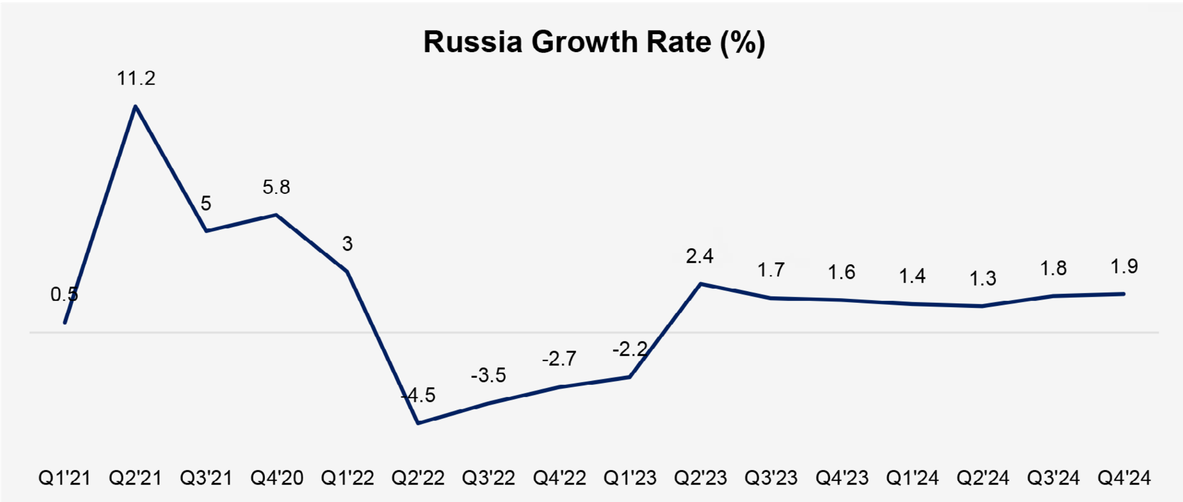
Source: Bloomberg
****Forecast: Q2'23 – Q4'24***

The Central Bank of Brazil left rates unchanged at 13.75% at the end of Q1 2023 as Brazil's inflation rate eased further to 4.7% in March 2023 from 5.6% in the previous month, this marked the weakest inflation rate since January 2021. The Brazilian economy is forecasted to grow by 0.8% in 2023 and 2% in 2024 according to the World Bank on the back of further fiscal policy headwinds.

Russia

Russia's economy contracted by 2.2% in the first quarter of 2023 in annual terms. According to the IMF, the economy is expected to rebound marginally in 2023 from a 2.1% annual decline in 2022 these results from Western sanctions against Moscow following its war against Ukraine. GDP is forecast to grow by 1.3% and 1.8% for Q2 and Q3 2023 respectively.

GDP Growth Rate – Russia



Source: Bloomberg
****Forecast: Q2'23 – Q4'24***

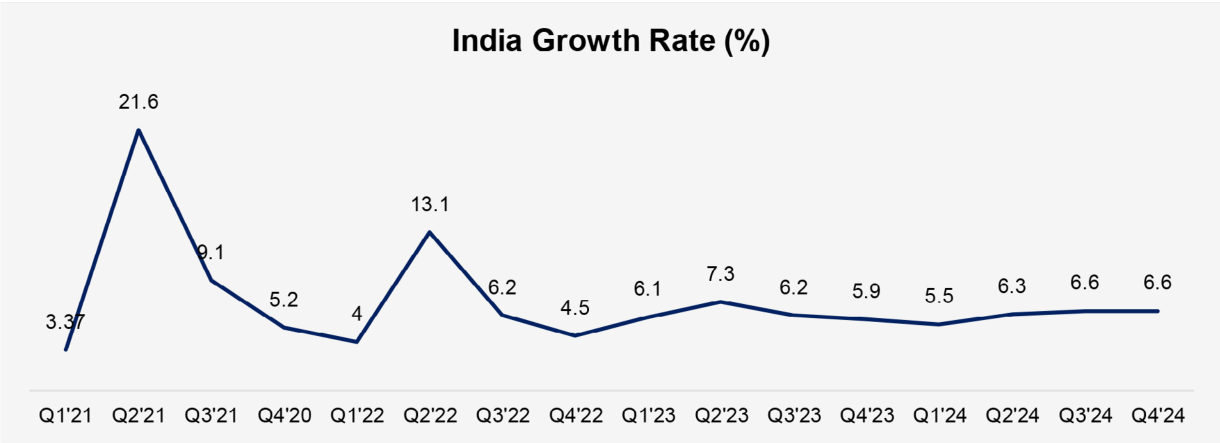
The annual inflation rate in Russia eased to 4% in March 2023 from 10.99% in the preceding month. It is the lowest inflation rate since March 2022, and below the Central Bank's target of 4%. The Central Bank of Russia unanimously left its key interest rate unchanged at 7.5% in April 2023. Unemployment remained dropped to 3.45% in March 2023 from 3.49% reported in February.

India

Despite the significant challenges in the global environment, India's economy showed resilience in its first quarter figures. GDP accelerated to 6.1% on the back of the recovery in private investment and domestic consumption. The World Bank has revised its 2023/2024 forecast to 6.3% from 6.6%. On a quarterly basis, analysts project GDP to grow by 6.3% and 6.6% in Q2 and Q3 2023 respectively. Growth is expected to be constrained by slower consumption growth and challenging external conditions. Annual inflation eased to 5.66% in March from 6.44% in the previous month, this was the lowest inflation rate since December 2021 and lower than the Reserve Bank of India (RBI) target range of 2% - 6%.

The Reserve Bank of India will leave its key interest rate unchanged at 6.5% for the rest of the year as it awaits to see economic impact of a series of hikes over the past year. Despite the possible slowdown, India is expected to be the fastest-growing economy of the seven largest EMDEs according to World Bank.

GDP Growth Rate – India



Source: Bloomberg
****Forecast: Q2'23 – Q4'24***

China

China's GDP growth increased by 4.5% in Q1 2023, as the end of strict COVID-19 curbs helped lift the country's economy out of a crippling pandemic slump. This stronger-than-expected GDP growth in Q1, together with the surprise double-digit export and retail growth in March, have spurred optimism in markets regarding China's economic rebound. GDP is expected to grow by 7.4% and 5% for Q2 and Q3 2023 respectively.

GDP Growth Rate – China

Source: Bloomberg
****Forecast: Q2'23 – Q4'24***

The People's Bank of China kept its benchmark lending rates unchanged for the seventh straight month in March, as expected, with the economy already benefiting from policy actions taken last week as it recovers from the pandemic. The one-year loan prime rate (LPR) was kept at 3.65%, while the five-year LPR was unchanged at 4.30%.

China's annual inflation rate unexpectedly came in at 0.7% in March 2023, compared with February's print and market consensus of 1.0%. This was the lowest figure since September 2021, as cost of both food and non-food eased further on the back of an uneven economic recovery after the removal of zero-COVID policy.

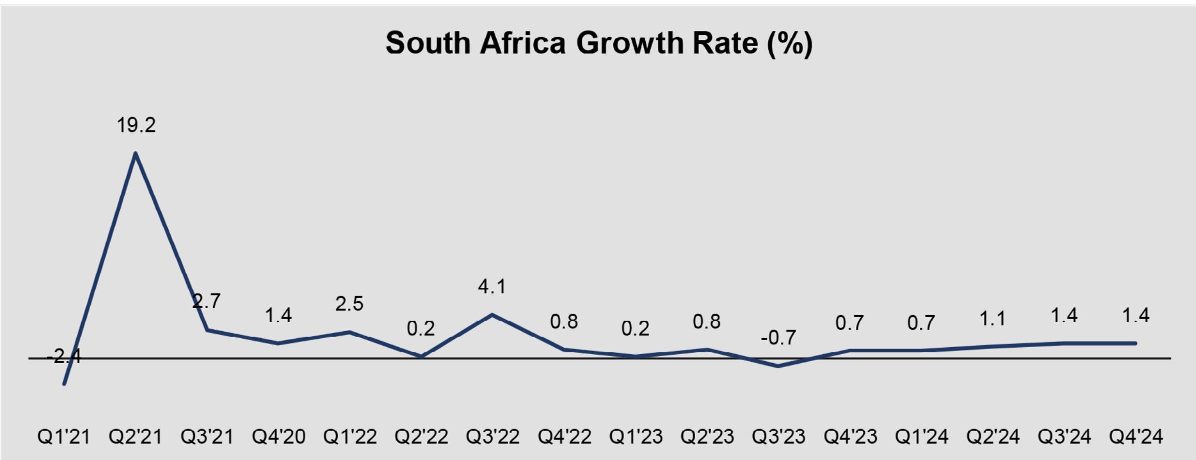
GLOBAL ECONOMY
AFRICA

South Africa

With rolling power outages lasting up to 10 hours a day, Africa's most industrialized economy is experiencing its worst power crisis. This is partly because of problems with the aging fleet of coal power plants owned by state utility Eskom. The economy grew 0.4% quarter-on-quarter in the first three months of 2023, and 0.2% year-on-year. Sectors that yielded growth were manufacturing and finance, real estate & business services were the largest contributors. The production of food and beverages was the main catalyst behind the industry's growth. The IMF is projecting GDP growth of just 0.1%. In addition to power cuts, tight fiscal and monetary policy and global economic headwinds will present challenges for the rest of 2023. GDP is forecast to grow by 0.8% and -0.7% for Q2 and Q3 2023 respectively.

Annual inflation rose slightly to 7.1% in March 2023 from 7.0% in the previous month, the main contributors were food and non-alcoholic beverages, housing and utilities; transport; and miscellaneous goods and services. The South African Reserve Bank (SARB) hiked to 8.25% as it raised its inflation forecast for the year. The SARB has now raised rates at 10 meetings in a row, adding a total of 475 bps to the repo rate since it began tightening policy in November 2021.

GDP Growth Rate– South Africa

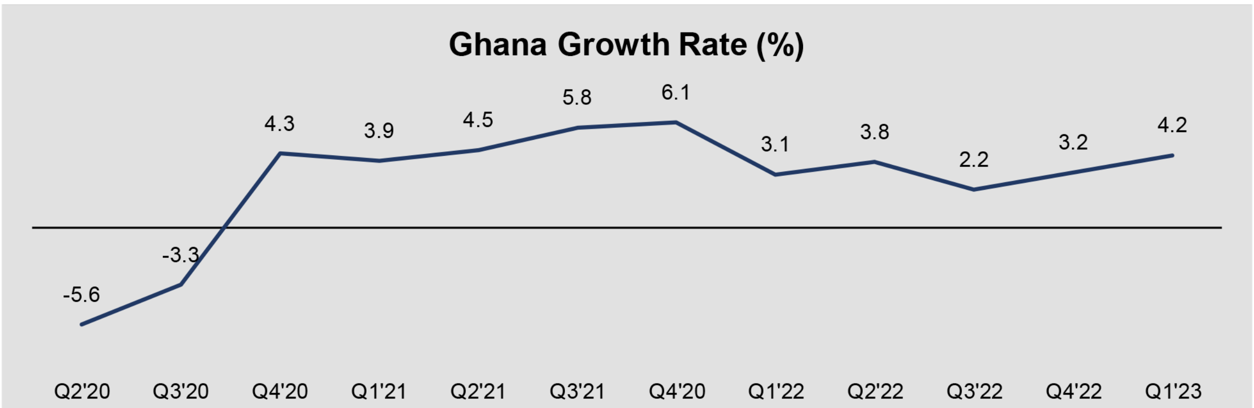


Source: Bloomberg
****Forecast: Q2'23 – Q4'24***

Ghana

Ghana's GDP expanded by 4.2% YoY in the first quarter of 2023 as compared to 3.7% in the previous quarter. The cocoa producing nation is facing its worst economic crisis, this is attributable to the spiraling public debt crisis. Ghana's annual inflation rate accelerated to 45% in March 2023, from 52.8% in February 2023. Despite slowing inflation which is still well above the 10% target, the Bank of Ghana raised its benchmark monetary policy rate to 29.5%. The World Bank projected that growth for 2023 will be recorded at 1.6% and 2.9% in 2024.

GDP Growth Rate & Forecast – Ghana

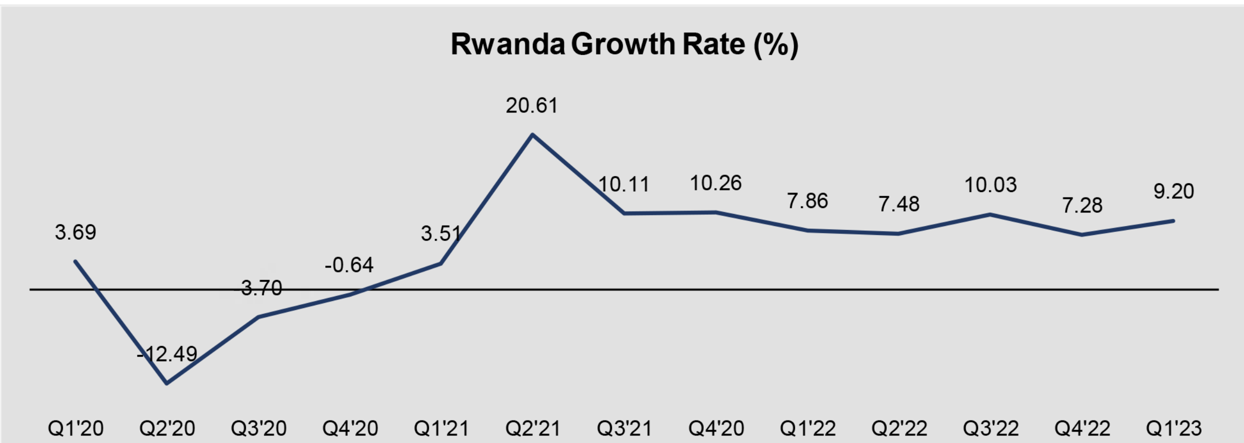


Source: Bloomberg

Rwanda

Rwanda's economy grew 9.20% in the first quarter of this year from 8.2% growth in 2022. Growth was observed mainly in services and industry, both of which grew 13% and 9%, respectively. Agriculture saw a growth of 1%. The National Bank of Rwanda (NBR) has kept its central bank rate (CBR) unchanged at 7%, despite International Monetary Fund (IMF) push to tighten the monetary policy further to contain inflationary pressures in the economy. Analysis indicates the inflationary pressures are on a declining trend, although still high. Rwanda's headline inflation eased to 17.8% in April, the lowest in seven months from a peak of 21.7% in November 2022.

GDP Growth Rate – Rwanda



Source: Bloomberg

Section 2

THE NIGERIAN ECONOMY

The Nigerian economic growth continued a positive trajectory, albeit at a slower pace recording 2.31% in Q1 2023, lower than the 3.52% posted in the last quarter of 2022. The decline was driven by a reduction in personal consumption owing to the impact of the cash crunch and fuel scarcity witnessed in the first quarter of 2023. The recent global banking crisis – the collapse of Silicon Valley Bank (SVB) and Signature Bank – amidst the persistent hike in benchmark rates by major central banks reignited fears of a looming recession. On this note, oil prices reversed 2022 gains. The price of Bonny Light, Nigeria's benchmark crude oil, declined by 2.20% to settle at $80.8 per barrel at the end of Q1 2023 compared to $82.58/b recorded in the preceding quarter. The inflation rate continued to rise printing 22.04% in March 2023, largely driven by the challenges of cash crunch which significantly impacted businesses, rising food prices, the pass-through effect of the exchange rate, imported inflation, and higher energy prices amongst others. To this effect, the Central Bank of Nigeria (CBN) maintained a hawkish stance to curb the mulish inflation. The Monetary Policy Rate (MPR) was increased for the 6th consecutive time to 18.0%, aggregating to a total of 650bps increase within 1 year.

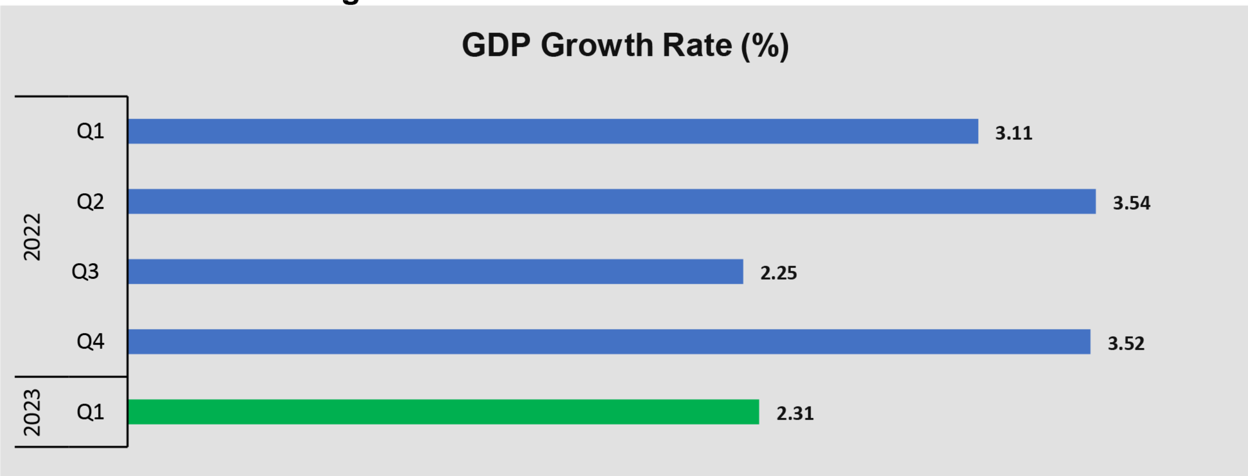
A snapshot of the domestic economy for the Q1 2023 is presented below:

Real GDP rose to 2.31% in Q1 2023 compared to 3.52% in Q4 2022	Oil prices descended to $80.8/b in Mar. 2023 from $82.58/b posted in Dec. 2022	Exchange rate at the I&E window depreciated to ₦461.15/$ in Mar. 2023 from ₦461.1/$ in Dec. 2022
The ASI rose to 54,232.34 points in Mar. 2023 from 51,251.06 points in Dec. 2022	Reserves dipped to $35.53bn in Mar. 2023 from $37.08bn in Dec. 2022	Inflation printed at 22.04% in Mar. 2023 compared to 21.34% in Dec. 2022
Composite PMI declined to 42.3 points in Mar. 2023 from 54.6 points posted in Dec. 2022	MPR rose to 18.0% in Mar. 2023 from 16.5% recorded in Nov. 2022	Total public debt increased to ₦46.25trn in Q4 2022 from ₦44.06trn in Q3 2022

2.1. GDP Growth

The Nigerian economy advanced by 2.31% in Q1 2023, relatively lower than the 3.52% recorded in the previous three-month period. The decline could be partly attributed to the adverse impacts of fuel scarcity and cash crunch. The non-oil sector declined by 2.77% from 4.44% recorded in the previous quarter. The sector, however, remained the main catalyst of the country's economic growth, contributing 93.79% to the GDP. Performance of the non-oil sector, in Q1 2023, was supported mainly by telecommunications, financial institutions, trade, construction, road transport, food, beverage & tobacco, industry. Meanwhile, the oil sector contracted at a slower pace, recording -4.21% in Q1 2023 from -13.38% recorded in the preceding quarter. The agriculture sector witnessed its first quarter decline in decades as growth came to -0.90% from 2.05% recorded in the past quarter as most agricultural activities were impacted by the cash crunch. The contribution of the Oil sector to the GDP improved to 6.21% from 4.34% during the reference period.

GDP Growth Rate – Nigeria

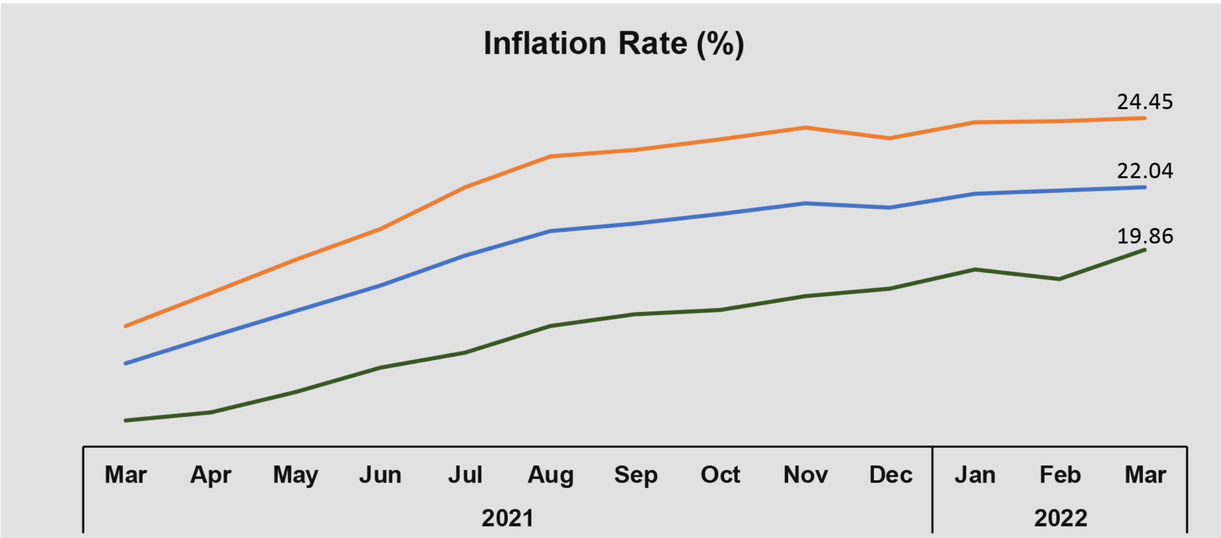


Source: NBS

2.2 Inflation

The annual inflation rate in Nigeria quickened for the 3rd month to a 17.5-year high of 22.04% in March 2023, up from 21.91% in the prior month, amid a subdued currency due to the worsening cash crisis. The National Bureau of Statistics (NBS) revealed that food inflation, climbed further to 24.45% in March from 24.35% in February, significantly impacted by insecurity in major food-producing areas, and activities of middlemen in the food distribution channels. Additional upward pressure came from the elevated cost of transportation owing to the higher cost of energy and progressive hikes in electricity tariffs. The annual core inflation rate, which excludes farm produce, picked up to a record high of 19.86% in March, from 18.84% printed in the prior month.

Inflation Year-on-Year

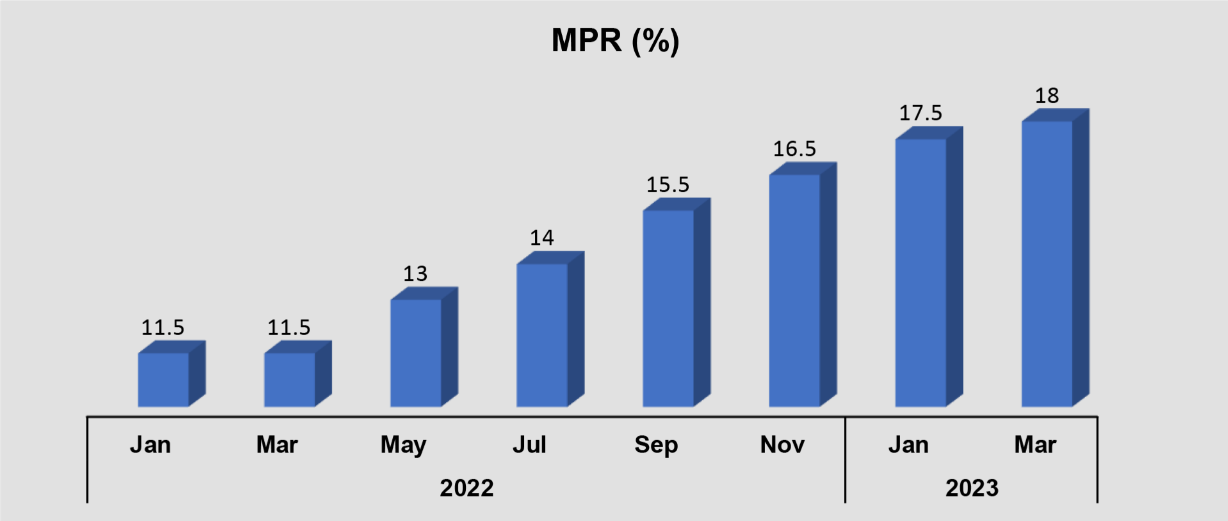


Source: NBS

2.3 Monetary Policy

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) raised the Monetary Policy Rate (MPR) by another 50 basis points (bps) to 18.0%. This marked the 2nd consecutive rate hike so far this year, bringing borrowing costs to higher levels since the MPR was adopted in 2006. The upward review of the MPR aggregates a total rate hike of 650bps within 1 year. The hawkish stance reflects the committee's drive to tackle the mulish inflation rate which threatens frail economic growth.

Trend in MPR

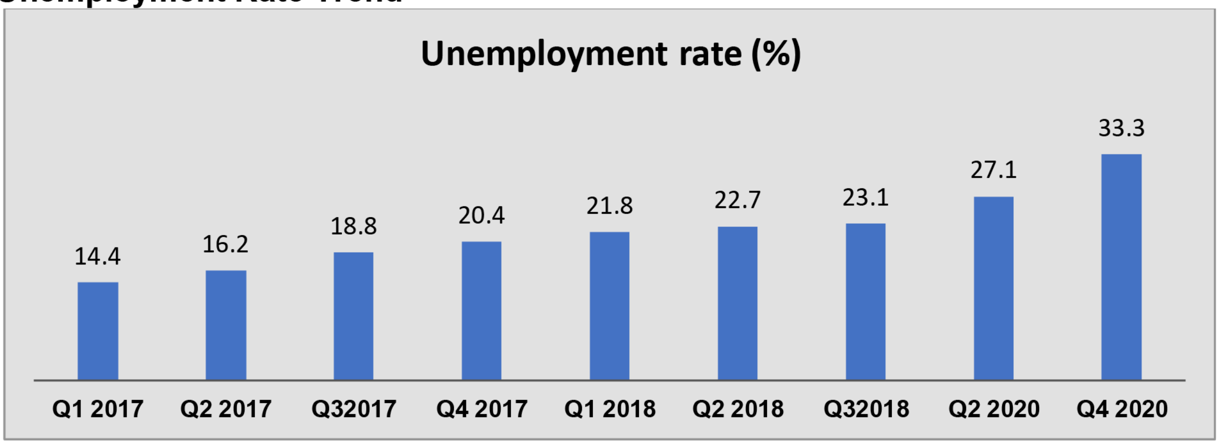


Source: CBN

2.4 Unemployment

Based on the most recent data from the NBS, the unemployment rate was 33.3% in Q4 2020 from 27.1% posted in Q2 2020. However, underemployment declined to 22.8% in Q4 2020 from 28.6% posted in Q2 2020. The severe impact of the COVID-19 epidemic, along with the country's frail economy (at the time), may be to blame for rising unemployment. This high unemployment rate has increased insecurity across the country as individuals look for additional unlawful methods to make ends meet.

Unemployment Rate Trend

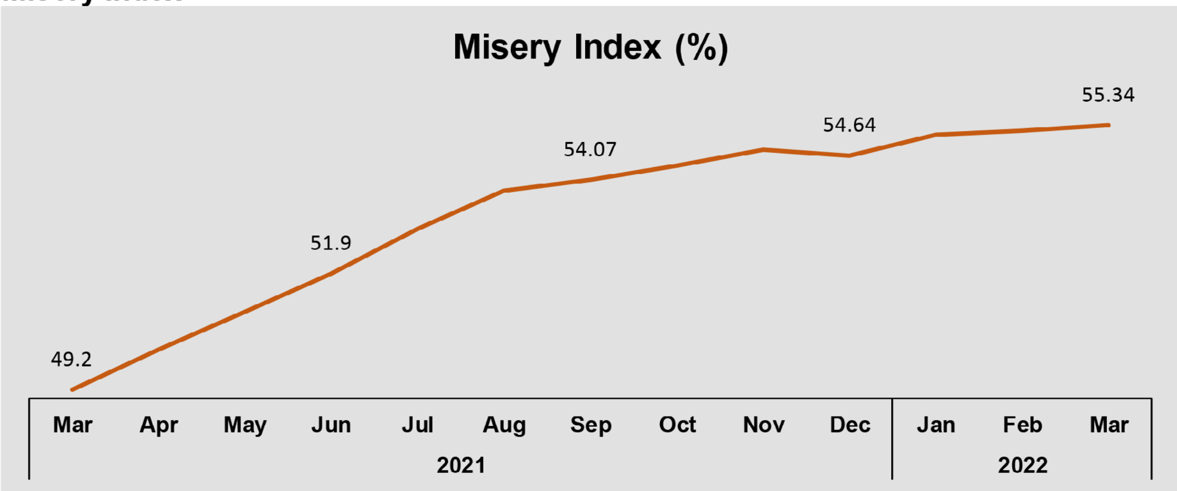


Source: NBS

2.5 Misery Index

The misery index, which is a combination of the inflation rate and unemployment rate, rose by 70bps to settle at 55.34% in March 2022 compared with 54.64% recorded in December 2022. The cash crunch and fuel scarcity witnessed in the first quarter of 2023 worsen the misery of the Nigerian populace. With income remaining relatively static and the persistent rise in cost of living, the living standard of Nigerians further deteriorated.

Misery Index

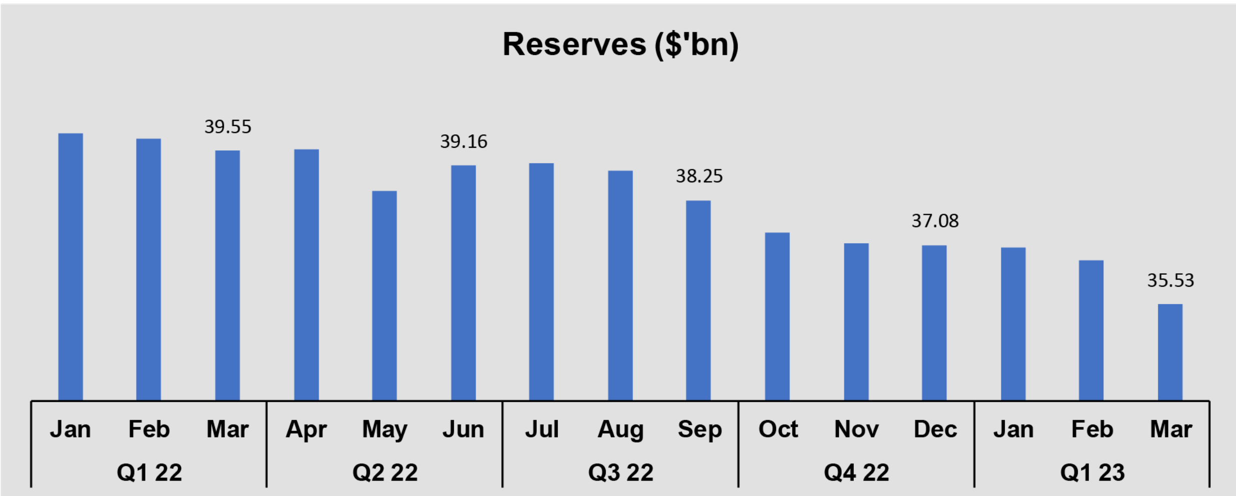


Source: NBS

2.6 External Reserves

Burgeoning Dollar demand matched with an insufficient inflow of Dollars, dwindling foreign portfolio investment (FPIs) inflow owing to forex illiquidity, and accumulating fuel subsidy payments curtailed accretion of the reserves. Reserves fell by 4.94% to settle at $35.25 billion at the end of Q1 2023 relative to $37.08 billion posted in the preceding quarter.

External Reserves

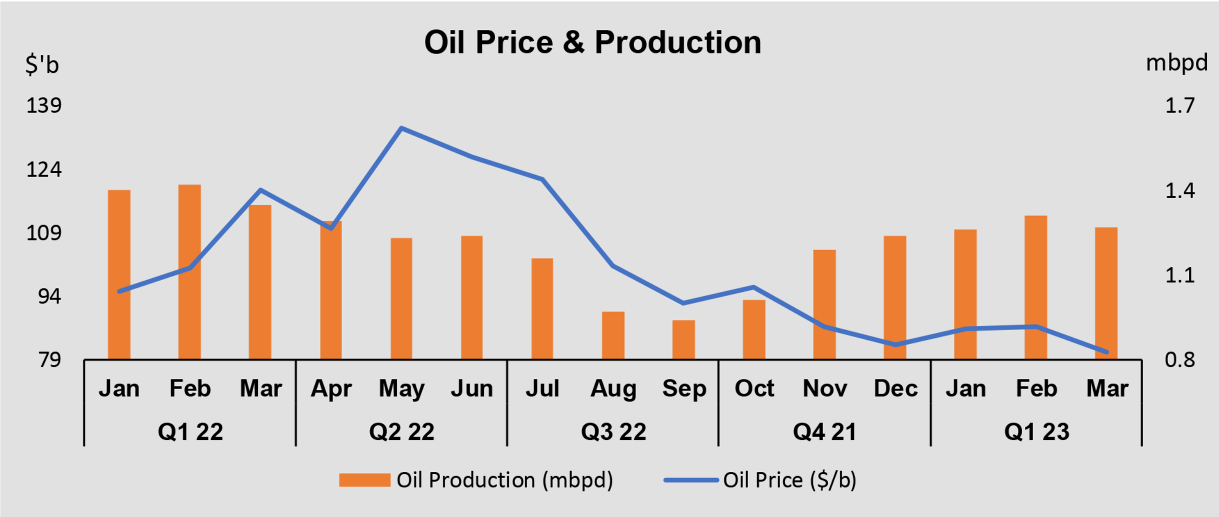


Source: CBN

2.7 Oil Price & Production

Oil price reversed gains, hovering near its lowest levels since December 2022, on the back of the US banking turmoil that stoked fears of broader weakness in the world economy. This was exacerbated by the signs of robust crude supply from Russia. Consequently, Bonny Light, Nigeria's benchmark crude price lost $1.78 per barrel (pb) to close at $80.8pb from $82.58pb posted in the preceding quarter. Oil production improved for the quarter as 1.27 million barrels per day (mbpd) was recorded relative to 1.24mbpd recorded at the end of Q4 2022.

Oil Price & Production

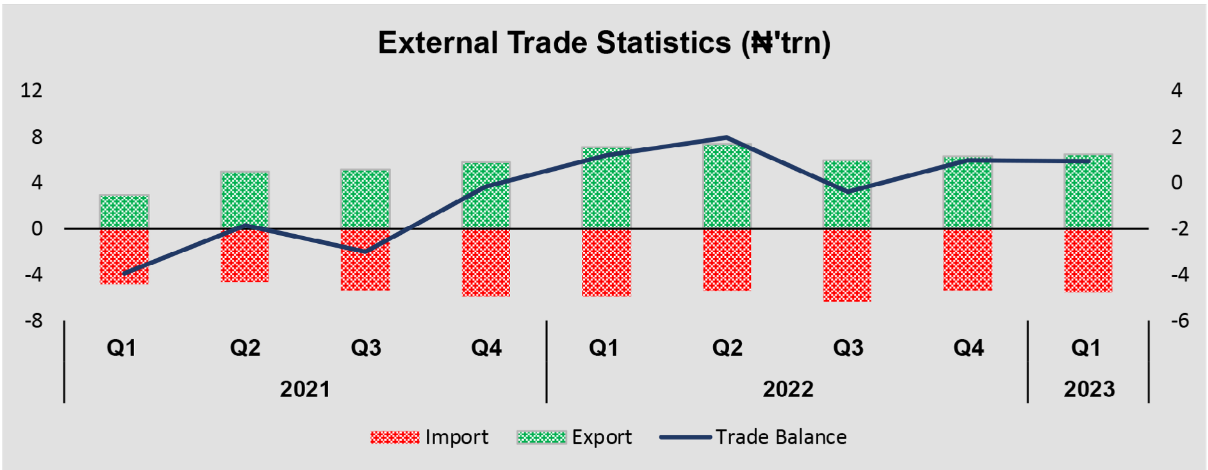


Source: CBN

2.8 External Trade

As exports outperformed imports in the first quarter of 2023, Nigeria recorded a trade surplus of ₦0.93 trillion. Comparing Q1 2023 export figures to Q4 2022, exports increased by 2.04% to reach ₦6.49 trillion. The growth of imports, on the other hand, was faster, increasing by 3.73% to reach ₦5.56 trillion as opposed to the ₦5.36 trillion recorded in the preceding quarter. Overall, total trade volume rose by 2.82% to reach ₦12.05 trillion, up from the ₦11.72 trillion recorded in the previous quarter. Nigeria's top 5 export trading partners for Q1 2023 were the Netherlands, the USA, Spain, France, and Indonesia while the top 5 import trading partners were China, Netherlands, Belgium, India, and the USA.

External Trade

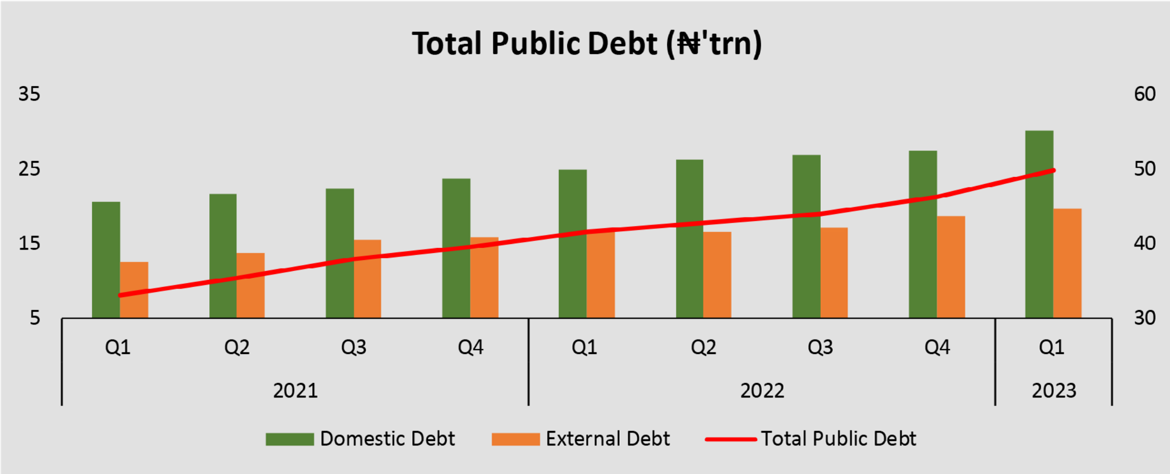


Source: NBS

2.9 Total Public Debt

Nigeria's public debt continues to expand, hitting ₦49.85 trillion in Q1 2023 from ₦46.25 trillion posted in Q4 2022, reflecting a growth of 7.78%. Domestic debt grew faster than external debt as the former grew by 9.66% while the latter grew by 5.03%. According to the Debt Management Office (DMO), domestic debt accounted for 60.6% to settle at ₦30.21 trillion in Q1 2023 from ₦27.55 trillion recorded in Q4 2022 while external debt contributed 39.4% of total public debt, settling at ₦19.64 trillion from ₦18.70 trillion, for the reference period.

Total Public Debt

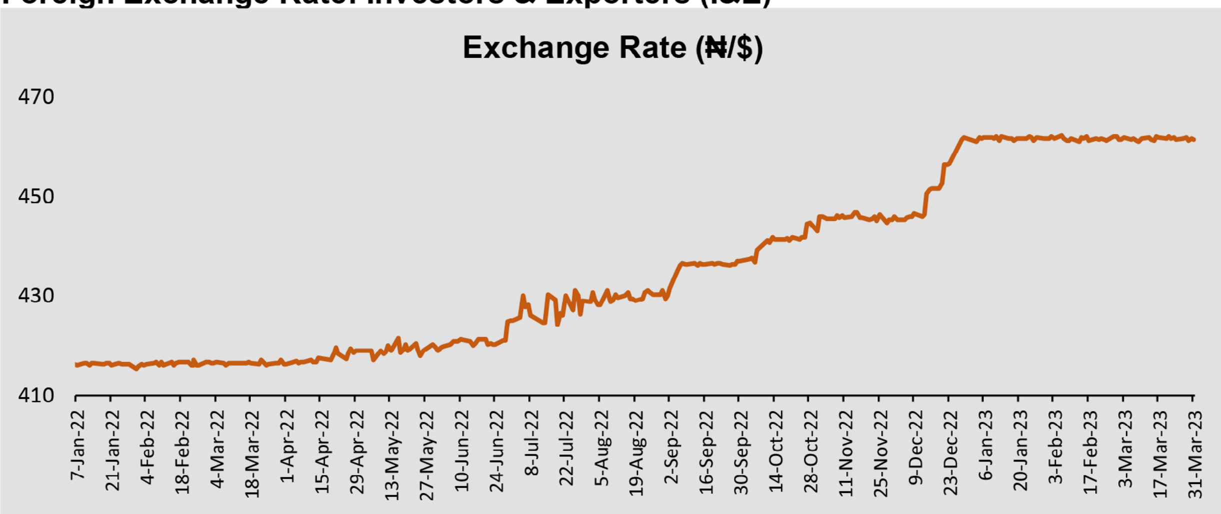


Source: DMO

2.10 Exchange Rate

Higher oil production which translated to an increase in foreign reserves supported the CBN's ability to intervene in the forex market. Naira slightly appreciated at the Investors & Exporters (I&E) window, exchanging the Greenback at ₦461.38 at the end of Q1 2023 compared to ₦461.50 exchanged at the end of Q4 2022.

Foreign Exchange Rate: Investors & Exporters (I&E)

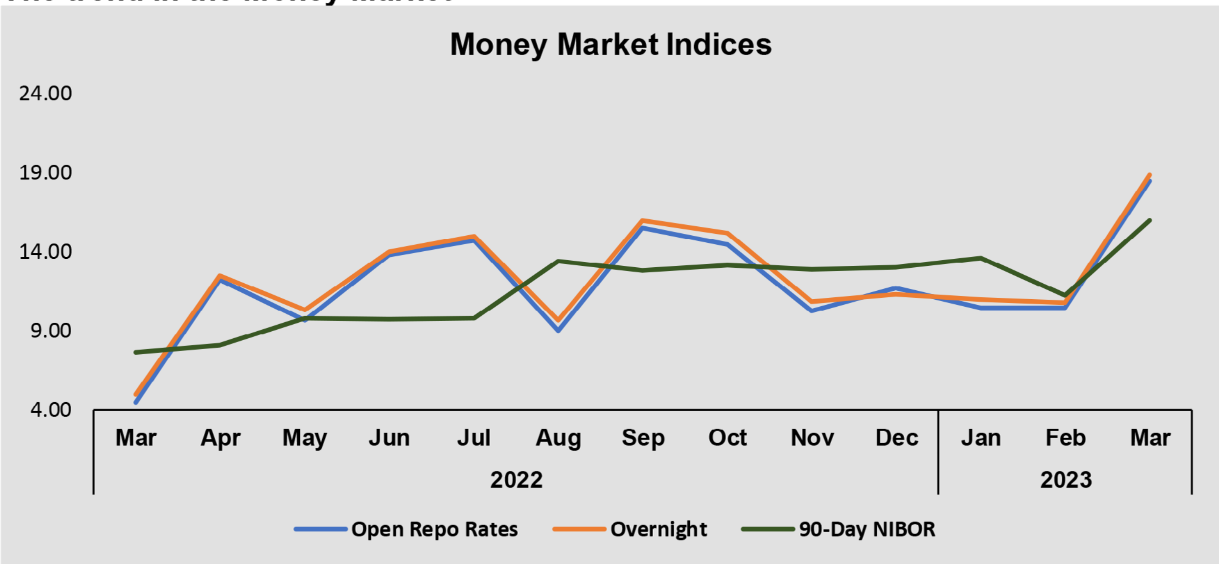


Source: FMDQ

2.11. Money Market

As market participants funded their obligations, weak liquidity amidst consistent increases of the benchmark interest rate propelled money market rates to look northwards. Short- term instruments such as the Open Repo Rates (OPR) and Overnight (O/N) rates closed at 18.5% and 18.88% at the end of Q1 2023, jumping from 11.75% and 11.33% recorded at the end of Q4 2022. Similarly, the slightly longer-dated instruments like the 90-day Nigerian Interbank Offered Rate (NIBOR) increased to 16.0% from 13.06% for the reference period.

The trend in the Money Market

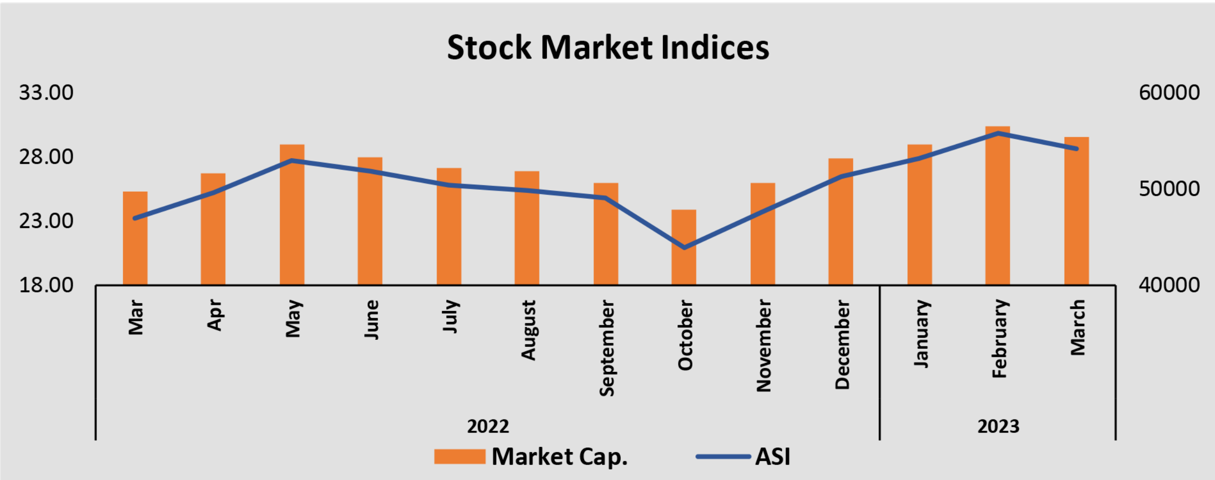


Source: FMDQ

2.12. The Stock Market

The bullish sentiment at the local bourse continued as investors found Nigerian stocks a great addition to their portfolios. The market reacted to the news of a successfully concluded Presidential election in February and the impressive financial numbers posted by Nigerian listed companies. The All-Share Index (ASI) closed Q1 2023 at 54,232 points compared to 51,251 points posted at the end of Q4 2022, reflecting a 5.82% increase. Similarly, market capitalization ascended, closing the quarter at ₦29.54 trillion compared to ₦27.92 trillion posted at the end of Q4 2022, a 5.80% increase.

Nigerian Exchange Limited: All Share Index and Market Capitalization

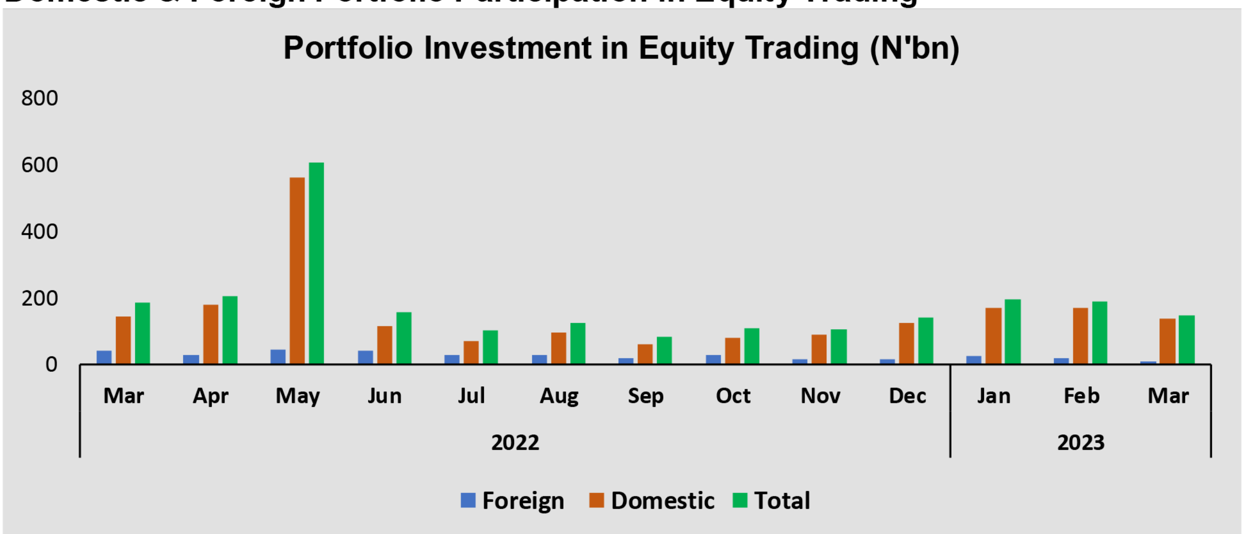


Source: NGX

2.13. Portfolio Investment – NGX

Although total transactions from portfolio investments into the nation's equity bourse grew by 9.20%, foreign participation declined significantly. The decline reflects the waning confidence of foreign investors in the Nigerian market. Foreign portfolio equity transactions fell by 39.58% to settle at ₦9.19 billion in Q1 2023, relative to ₦15.21 billion posted in the preceding quarter. Domestic investors remained the key participant in the equity market contributing 93.71% to the total transactions carried out in Q1 2023. Total transactions closed at ₦146.22 billion in Q1 2023 from ₦140.70 billion posted in Q4 2022.

Domestic & Foreign Portfolio Participation in Equity Trading

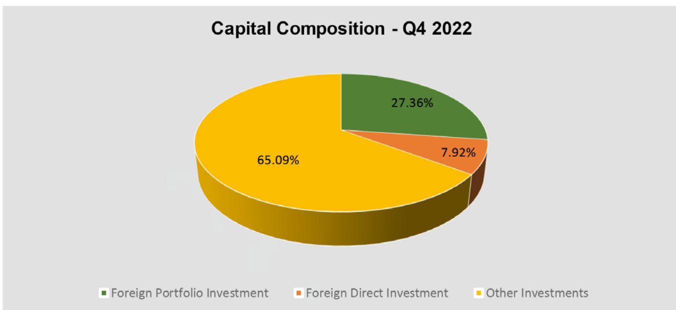


Source: NGX

2.14. Capital Importation

Report from the National Bureau of Statistics revealed that Capital imports into Nigeria increased by 6.78% to settle at $1.13 billion in the first quarter of 2023, compared to $1.06 billion recorded in the final quarter of 2022. Foreign Portfolio Investment (FPI) contributed the most to the capital imported in Q1 2023, accounting for 57.32% to settle at $0.65 billion. Other Investments and Foreign Direct Investment (FDI) contributed 38.47% and 4.20% to the capital imported in the reference period, respectively. In the reference period, the United Kingdom maintained its spot as the leading source of capital import to Nigeria and Lagos remained the top destination for capital import.

Capital Importation & Composition

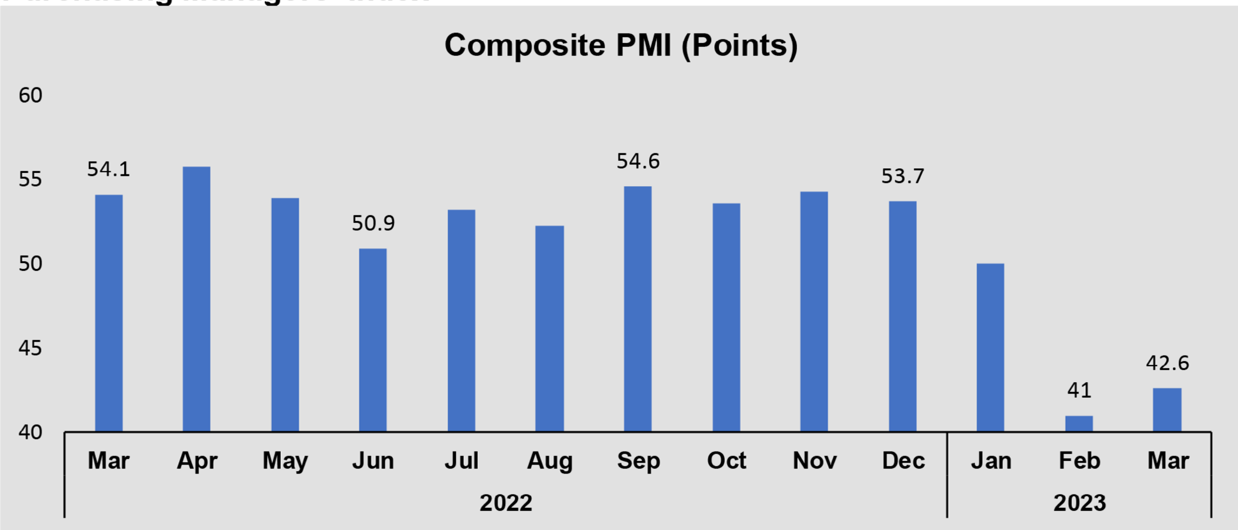


Source: NBS

2.15. Purchasing Managers' Index

The composite Purchasing Managers' Index (PMI) dipped in Q1 2023, closing the quarter at 42.6 index points compared to 53.7 index points recorded in Q4 2022. The steep reduction witnessed in February and March 2023 was attributed to the cash crunch experienced during the period, which made firms dial back purchasing activities and employment. Fuel scarcity witnessed during the period also added to price pressures, leading to delivery delays from suppliers.

Purchasing Managers' Index



Source: Stanbic IBTC

2.16. Credit Ratings

Fitch affirmed Nigeria's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'B-' with a "Stable" Outlook. The 'B' rating is backed up by a favourable public debt/GDP ratio, a sizable economy, an established and liquid domestic debt market, and substantial oil and gas reserves. However, despite significant uncertainty surrounding the policy agenda, Fitch's base case expectation of modest reform progress under the new government, including the elimination of oil subsidies and perhaps increased exchange-rate flexibility, supports the "Stable" Outlook. However, the rating is limited by poor governance, security risks, high inflation, structurally extremely low non-oil revenue, significant reliance on hydrocarbons, and flaws in the exchange-rate system. Moody's Investors Service (Moody's), an international credit rating agency, downgraded Nigeria's local currency and foreign currency long-term issuer ratings as well as its foreign currency senior unsecured debt ratings to Caa1 from B3 and changed the outlook to stable. The downgrade was prompted by the risk that the ongoing fiscal and external deterioration accelerates, weakening further the government's capacity to service debt and thereby increasing further its risk of default. Moody assesses that these developments are partly the result of long-standing institutional weaknesses and social challenges which, they claim, are likely to persist. The rating agency hinted that the immediate default risk is low, assuming no sudden, unexpected events such as another shock or shift in policy direction that would raise the default risk.

S&P Global Rating, an international credit rating agency, revised its outlook for Nigeria from "Stable" to "Negative" while affirming the country's long and short-term foreign and local currency sovereign credit ratings at "B-/B". The downgrade in outlook rode on the increasing risks to the country's debt servicing capacity in coming years. According to S&P, Nigeria's debt servicing capacity has weakened due to high fiscal deficits and increased external pressures. This comes after Moody's, another international credit rating agency, downgraded Nigeria's sovereign rating to Caa1 from B3 while maintaining a stable outlook, driven by the expectation of further deterioration of the government's capacity to service debt.

2.17. Socio-Economic Landscape

On February 25th, 2023, Nigerian electorates chose the 5th Democratic president to manage the affairs of the economy. Of the 18 presidential candidates and 3 major contenders, Bola Ahmed Tinubu of the All-Progressive Congress (APC), and former Governor of Lagos State, emerged winner of the election garnering 36.6% of the total votes. Kashim Shettima, the running mate of Bola Tinubu, also emerged as the Vice President of Nigeria. The first runner-up was the former Vice President of Nigeria, Atiku Abubakar of the People's Democratic Party (PDP), followed by the former Governor of Anambra State, Peter Obi of the Labour Party (LP), followed by the former Governor of Kano State, Rabiu Kwankwaso of the New Nigeria People's Party (NNPP). However, the 1st and 2nd runners-up are currently contesting the final election results in court. Elections were also held for other positions such as the governorship of 31 states, and national and state house of assembly.

The Federal Inland Revenue Service (FIRS) revealed that Nigeria's tax-to-GDP ratio improved to 10.86% at the end of 2021, higher than the range of 5% - 6% recorded within the past 12 years. The tax-to-GDP ratio is a measure of a country's tax revenue relative to the size of the economy which is measured by the GDP. It is a pointer to the effectiveness of fiscal policies implemented in an economy. Higher tax-to-GDP means that the government have sufficient ability to provide public goods and services to its populace. Despite the improvement of Nigeria's tax-to-GDP, it remains below the World Bank's benchmark of above 15% which is seen as a key ingredient for poverty reduction and economic growth.

2.18. Financial Sector Developments

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) raised the Monetary Policy Rate (MPR) twice in Q1 2023 adding 100bps and 50bps to November's 16.5%, pushing the MPR to 17.5% and 18% in January and March, respectively. The upward review of interest rates aggregates a total rate hike of 650bps within 1 year. The hawkish stance reflects the committee's drive to tackle the mulish inflation rate which threatens frail economic growth.

Section 3

OUTLOOK FOR Q2 2023

GDP Growth

GDP growth for the Nigerian economy is expected to remain positive but might slow down owing to the impact of fuel subsidy removal on businesses and individuals.

Foreign Exchange

The Naira is expected to hover between ₦460/$ and ₦470/$. However, the unification of the exchange rate, which could take the exchange rate up to ₦600/$, is highly possible in this new administration.

Crude Oil

Oil price is expected to hover between $70/b and $90/b as the top consuming economies battle with weak demand and slow growth.

Monetary Policy

The CBN is expected to increase the interest rate, by another 50bps, to dial back inflationary pressure that would be worsened by the removal of fuel subsidy and possibly unification of the exchange rate.

Foreign Reserves

Foreign reserves are expected to average between $34 billion - $36 billion as the CBN continues to defend the value of the Naira amidst burgeoning demand for the Dollar which is matched with an inadequate supply of the Dollar.

Inflation

Fuel subsidy removal by the new government will fan inflationary pressures. Inflation rate is expected to end the quarter between 25% - 27% as the prices of goods and services double. Inflation rate will be subdued due to the base effect.