



**CENTRE FOR THE
PROMOTION OF
PRIVATE ENTERPRISE**

2022 ECONOMIC OUTLOOK





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The Outlook for the Nigerian economy in 2022 is largely positive. However, Gross Domestic Product [GDP] growth would remain fragile and projected at 3% threshold. The key expected drivers of growth include the following:

1. Sustained recovery of global oil price. We expect that the average oil price in 2022 will exceed the budgeted benchmark of sixty-two dollars (\$62) per barrel, offering some fiscal headroom. This would be powered by higher energy demand driven by the recovery of economic activities globally. This trajectory is expected to impact on our foreign reserve and strengthen the capacity of the Central Bank of Nigeria (CBN) to support the foreign exchange market.

2. The impact of the pandemic on the global and domestic economies is beginning to dissipate on account of increased vaccination and other measures to contain the pandemic. The capacity of many countries to manage the pandemic has progressively improved with each pandemic experience. Therefore, the shocks of subsequent variant of the pandemic on the global and domestic economies are likely to be less severe than previous ones. Instances of lockdowns of economies are less likely to be prevalent in 2022. We expect to see less damaging response adopted by countries around the world. Therefore, both globally and domestically we are less likely to witness prolonged lockdowns.
3. The service sector of the Nigerian economy will continue to outpace the real sector in 2022. In the third quarter of 2021, service sector contribution to GDP was 50% and the growth of the sector was 8.41%. oil sector contribution to GDP was 7.5%; while the non-oil sector contribution was 92.5%. while the industrial sector growth contracted by 1.63% agriculture grew by 1.2%.
The reason for this was that the service sector is less vulnerable to the structural constraints bedevilling the economy, particularly the real sector of the economy. The infrastructure demand in the services sector is much less than that of the real sector of the economy.
4. The activation of the Petroleum Industry Act (PIA) in 2022 is expected to impact positively on the economic outlook. We expect to see positive outcomes as investor sentiments in the oil and gas sector improves on account of the reforms anchored on the PIA. This will however depend on the political will deployed to drive the implementation of the provisions of the Act. It is also expected that the coming on stream of the Dangote refinery in 2022 will also impact positively on the downstream sector of the economy.



DOWNSIDE RISKS TO THE ECONOMY IN 2022

The economic players will grapple with a number of headwinds in the economy in 2022. These have macroeconomic, policy, regulatory, structural and security dimensions.

1. The seemingly intractable problem of insecurity remains a significant risk to the economy and the impact on some sectors, especially the Agricultural sector will be profound. There are also concerns about the effect on the perception of Nigeria as an investment destination and implications for Nigeria country risk rating.
2. Monetary and foreign exchange policy rigidities may also pose a risk to the growth outlook as there are no indications of any significant shift in monetary and foreign exchange policy stance in the near term. Consequently, the distortions inherent in the foreign exchange market will persist in 2022. The constraining effect of the high Cash Reserve Requirement [CRR] on financial intermediation would also persist in 2022 with a dampening effect on growth outlook.
3. Investors will have to grapple with the barriers to international trade experienced in 2021. These are problems relating to the Lagos ports, the traffic gridlock, port congestion, bureaucratic documentation processes, extortions and the prohibitive charges by terminal operators and shipping companies are unlikely to abate in 2022. Investors would have to grapple with these constraints in 2022.
4. There will be intense electioneering activities in 2022, preparatory to the 2023 elections. This will cause some serious distractions for political office holders at all levels as they struggle to retain power during the elections. This will adversely impact the economy and the investment environment as considerable attention and resources are committed to the electioneering activities in 2022.



5. The aggressive drive for revenue by agencies of government will put enormous pressures on investors in 2022. Beyond the regular tax authorities, other agencies of government may become more aggressive in their revenue drive. This will constitute an additional burden to investors in 2022.
6. The burden of petroleum subsidies on government finances may persist in 2022 despite the PIA. It is doubtful whether the government will be able to exercise the political will to effect the removal of petroleum subsidy given the closeness of the timing to the 2023 elections. Therefore, on account of political exigencies and push back by the ruling party and labour, the economy may have to bear the heavy fiscal burden of subsidy in 2022. This also signals delays in the full implementation of the PIA and reform of the downstream oil sector. However, if the Dangote refinery comes on stream in 2022, the fiscal pressure may abate, but not completely eliminated.
7. The pressure of debt service on government finances will persist in 2022 and beyond. Total public debt as at 30th September 2021 was N38 trillion or \$92.6 billion, according to the Debt Management office. The 2022 Budget provided for the sum of 3.88 trillion Naira as debt service. This is a substantial amount when compared with the capital budget provision of N5.46 trillion. Debt service payment is typically a first line charge in budget releases. The ambitious budget size of 17.1 trillion Naira and the unpredictable revenue outlook elevates the risk of higher fiscal deficit than projected. This has implications for macroeconomic outcomes of high fiscal deficits, a new round of monetisation of the deficit, pressures on the exchange rate and the general price level.



Opportunities in the Economy

Despite the downside risks, the economy will continue to present huge opportunities for investors across all sectors. This is on account of the resourcefulness of the Nigerian people, especially the entrepreneurs. Other inherent strengths of the Nigerian economy include the market size, the population, and the demographic characteristics.

The economy will continue to draw its resilience from the activities and creativity of the SMEs and the informal sector of the economy. The reality is that the policy, structural and regulatory weaknesses will persist in 2022. But investors have a responsibility to construct their business and corporate strategies to manage the inherent risks.



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Profile Of DR MUDA YUSUF

Dr Muda Yusuf is the immediate past Director General of the Lagos Chamber of Commerce and Industry (LCCI). He is an economist and has contributed immensely to the national economic discourse through his research-based analysis of policies of government as they affect various sectors of the economy. He is currently the Founder/CEO of the Centre for the Promotion of Private Enterprise [CPPE], an NGO committed to the ideals of free enterprise and private sector development.

Dr Yusuf obtained bachelor's and Master's degrees in Economics from the University of Ilorin, Nigeria and University of Lagos, Nigeria respectively. He has a Masters Degree in Business Research from the Swiss Business School, Switzerland. He also holds a Doctorate degree in Business Administration from Swiss Business School, Switzerland. He has good understanding and competence in Business and Corporate Strategy. He is an alumnus of the Lagos Business School, having attended the Advanced Management Programme of the school.

He has participated in numerous high-level public policy advocacy dialogues at both the federal and state levels with the aim of fostering a conducive environment for private sector development in the Nigerian economy. He is a leading advocate of an enabling environment for the Nigerian private sector and has a vast knowledge and exposure on Business Research, Policy and Regulatory issues affecting business.

Dr Muda Yusuf has attended numerous prestigious courses, conferences and seminars both locally and internationally.



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