



Nigeria's Mid-year Political outlook 2021



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The previous year 2020 was unusual. The Coronavirus pandemic was a major headwind, and its effect would linger in many developing countries like Nigeria. Governments are not certain to see significant improvement throughout the year 2021 despite the intervention programs. In Nigeria, the EndSARS campaign in the last quarter of 2020 caused a gaping fissure to the foundations of national politics. As a result, varying levels of tensions have been experienced through 2021. Open incidences of robbery, kidnapping, terrorism, political and ethnic suspicion are a few.

Politics affect economics. Over the last 15 years, security crises in the South-south and North-east have thwarted growth and prosperity in Nigeria. As the polity quakes, businesses struggle. The declining output and rising unemployment combine to limit the alternatives available to households even as inflation erodes the value of their savings. The political economy is unstable. Therefore, it is important to analyze the outlook for the rest of the year and examine the implications for businesses and investors looking to make decisions. Click to download the report.



Macroeconomic overview

- Oil revenue has extensive influence on economic conditions in Nigeria. A fall in crude oil price has been shown to impact Nigeria's FX reserves adversely and vice versa.
- On April 21 2020, the price of oil fell drastically to an unprecedented low of USD7.15/barrel (from USD69.04 at the start of the year) – attributable to the global pandemic. The lowest during the 2016 recession was USD25.81/barrel.
- Concomitantly, foreign reserves fell in varying proportions. The 89.6% decline in global oil price contributed measurably to the 12.9% decline in FX reserves by April 23, 2020. However, even though the fall in oil price is steeper and lower than that in 2016, the decline in FX reserves did not fall to the extent in 2016. FX reserve in the trough of the recession in 2016 was USD 23.9 billion whereas it was USD 33.5 billion in 2020.
- Nonetheless, we see a short-lived accretion in the FX reserves following the rebound in global oil price. **(Notice the differences/similarities in the V-shaped rebound in both figures 3 & 4 for 2016 and 2020).** Even though the price of oil sells at USD70/barrel as of 19/7/2020, the FX reserves have declined to USD 33 billion due to increased fiscal activities to mitigate Covid-19 health and socioeconomic impacts. Oil price fortune would determine the direction it goes for the rest of the year.

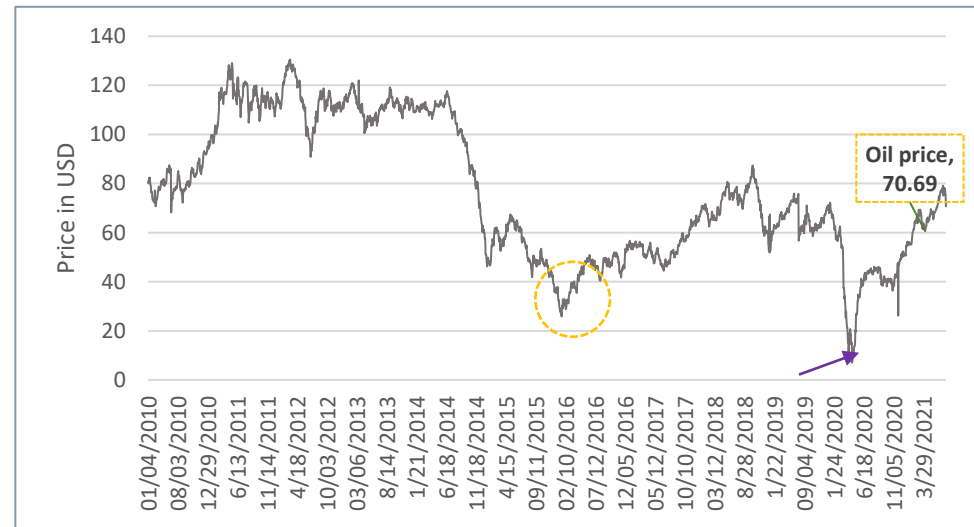


Figure 1: Crude oil price as at 19/07/2021 | Source: CBN database

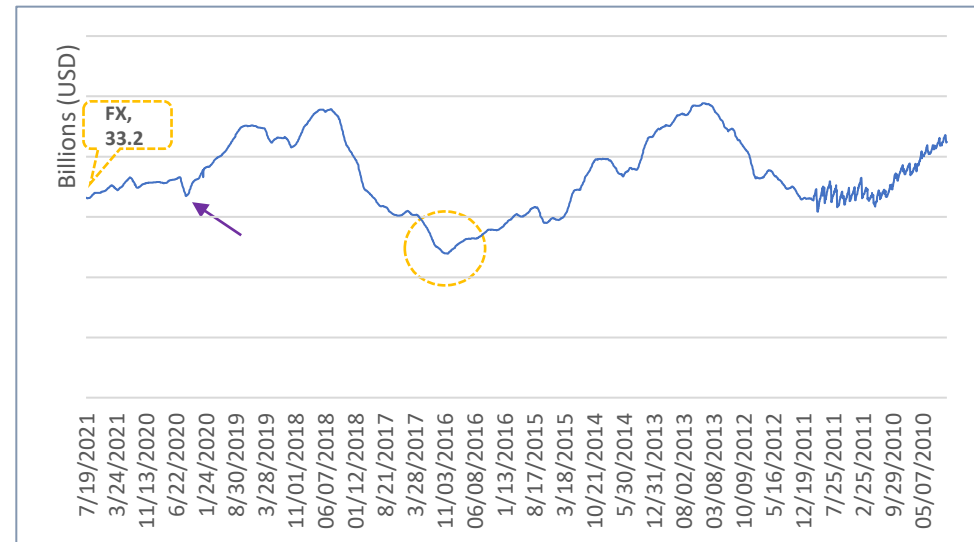


Figure 2: FX reserves position as at 19/07/2021 | Source: CBN database

Macroeconomic overview

- Figure 3 shows the trend in inflation, interest rate and exchange rate over the last 10 years. It shows periods of negative real interest rate: 2008/9, 2016 and 2020. Inflation as of February 2021 was 17.3% and interest rate was under at 11.5%.
- Negative real interest rate erodes the value on savings and has implications on the efficiency of investments.
- It also has implications for unemployment and output.

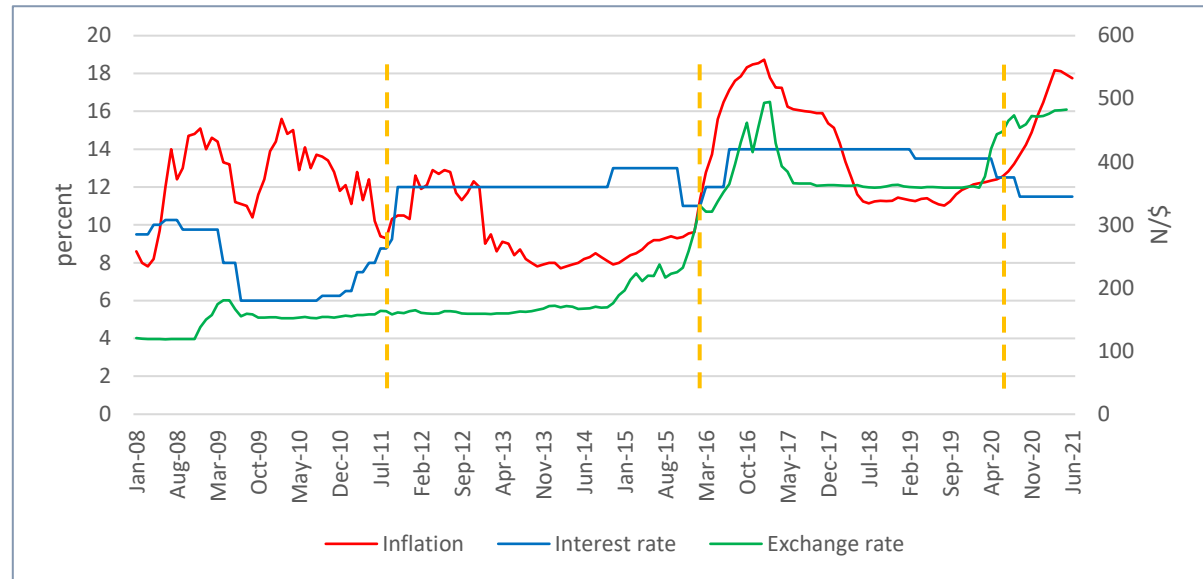


Figure 3: Inflation, Monetary Policy and Exchange rates | Source: NBS database

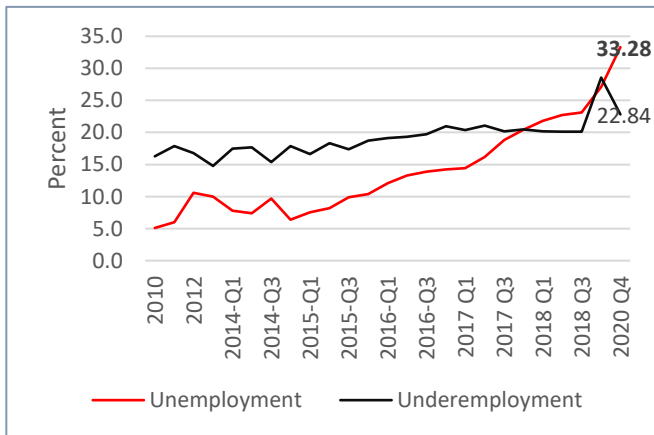


Figure 4: Labour market | Source: NBS database

- Given the high inflation environment (17.75% in June), the CBN cannot raise interest rates as it would hurt an already weak investment spending, high unemployment (33.3%, 2020). We anticipate that CBN will retain MPR after the MPC meeting on the 26/27 July 2021.
- AfDB’s optimistic forecast is that the Nigerian economy would grow by 2.5% despite.

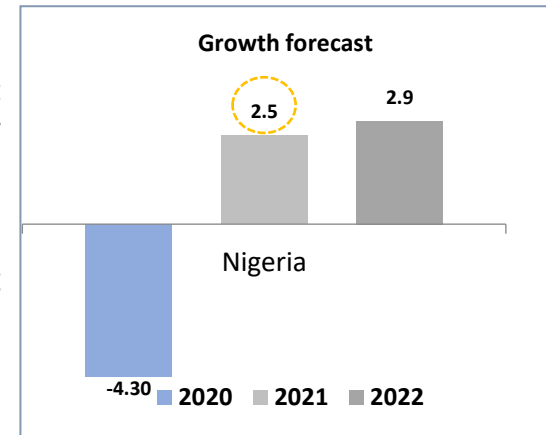
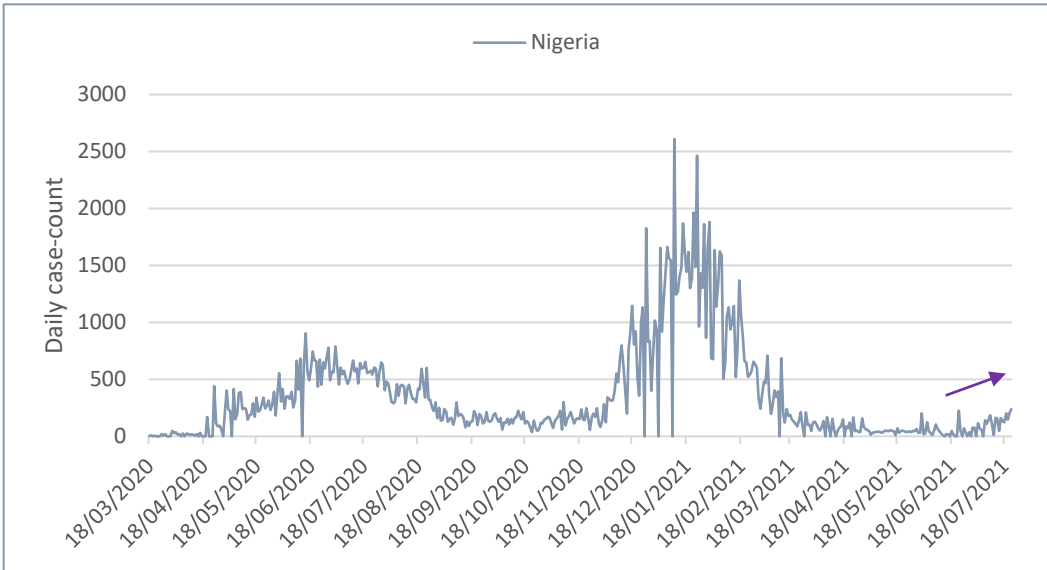


Figure 5: Growth forecast | Source: AfDB

Covid 19 and Vaccination outlook



- We see a reversal of trend following a spike in the number of new cases during the festive season in December 2020 reaching peak levels on January 2021.
- We see an upward trend since June 2021, suggestive of a new wave.
- As of 22.07.2021, total death was **2,130**, total confirmed cases was **170,122**, and new case was **238**.

Figure 6: Coronavirus daily cases as at 22/07/2021 | Source: WHO Covid-19 database

- Using Germany as a benchmark for vaccination milestone, we see how Nigeria is performing relative to peers. As of 19.07.2021, 3.9 million people have received, at least, a first dose. That is 1.91% of the population.
- Even though total vaccination in Nigeria is comparatively significant, it is the least in terms of percentage of population vaccinated.

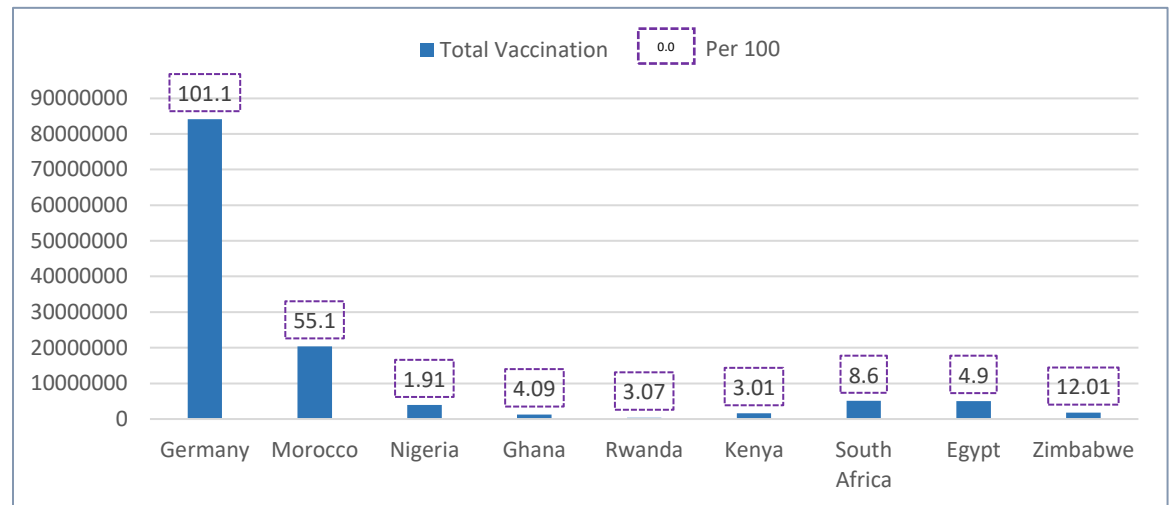


Figure 7: Total vaccination in select countries as at 22/07/2021 | Source: WHO database



Presidency

- Buhari has been the president since 2015 following a “re-election” in 2019. Buhari was re-elected president for a second term after a fiercely contested election against Atiku Abubakar as the major opposition – PDP.
- The 2019 election, different from the 2015 election, was said to be characterized by low voters turnout, underage voting, vote buying, violence, and suppression. The political economy has (arguably) deteriorated due to the heightened insecurity, nepotism and marginalisation.

Insecurity



- Boko-Haram terrorist group & Islamic State West Africa Province (ISWAP) killing and kidnapping students in the North; Fulani herdsmen destroying properties and lives in the middle belt; unknown agitators attacking political institutions in the South-east, hoodlums and cult factions in the South-west.
- Resultant distrust in the state security agents which culminated in the #EndSARS campaign in the later part of 2020, and now regions considering independent security operations e.g., *Amotekun* in the South-west, *Ebube-Agu* in South-east. *Shege Ka Fasa* in the North.
- Schools, local communities and interstate highways have become easy targets for terrorist kidnapping and extortions. On another hand, the number of rape and murder cases as well as sheer armed robbery incidences have gone up.
- There is perceived tension coming from secessionist sentiments based on alleged marginalization, insecurity and question on the competency of the Presidency. E.g., Oduduwa Republic, Indigenous People of Biafra – IPOB. Even though faces of these factions have been apprehended and being tied, if unaddressed at the core, such ideology would possess another body.





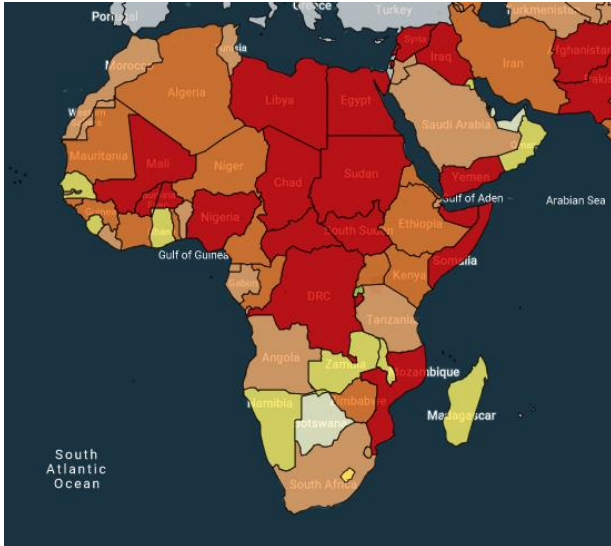
State reforms

- The restructuring of Nigeria has been on the front burner as necessary for the realization of true federalism. What does restructuring mean?
- The deafness to the to the call for restructuring is beginning to give credence to the call for autonomy and separation.
- Ongoing conversations about constitutional conference and Amendments. Do we have a sufficient constitution?
- Recent submission to rename Nigeria to United Africa Republic.
- Electoral reforms and electronic (transmission of) votes is another major issue on the front burner after the passage of the Petroleum Industry Bill. [Senators](#), mostly from the ruling party voted against the electronic transmission of election results. The resolve is that electronic transmission of result is subject to the approval of the National Communication Commission and National Assembly.
- Still other contending issues as Social media bill and the clampdown on Twitter and press freedom; Petroleum Industry Bill (recently passed), State Policing, Anti-open grazing, and electoral reforms to enable electronic voting.

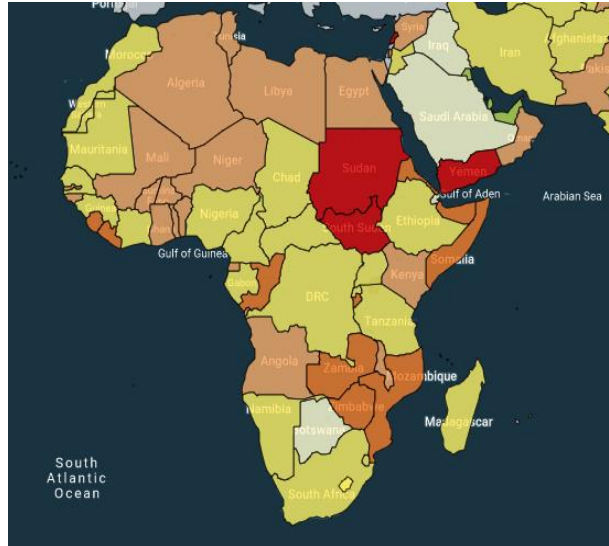
Other issues

- State elections in Anambra and the exclusion of a major candidate, Chukwuma Soludo from the published list by the electoral commission does not augur well for free and free election.
- The arrest of Nnamdi Kanu and Sunday Igboho, two secessionist leaders are interesting issues that would shape political conversations in the coming months.

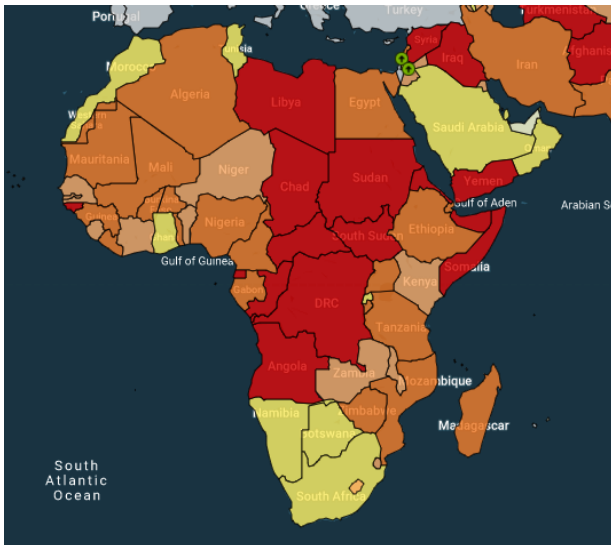
Political risks Indicators: AON Political risk Map



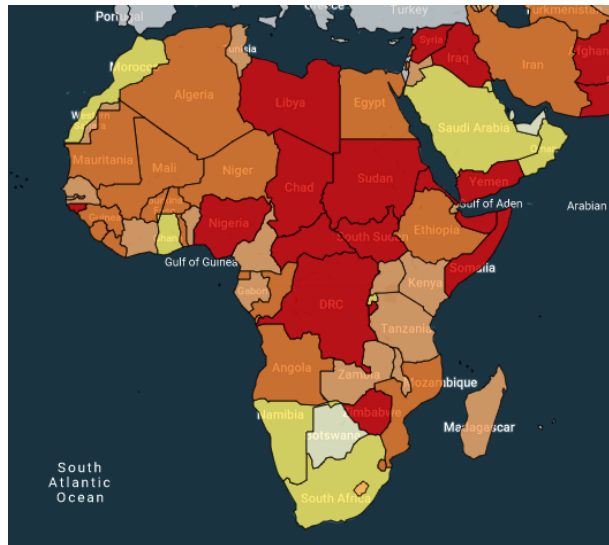
Political violence risk: 6



Inability of government to provide stimulus: 3



Political interference risks: 5



Country risks: 6

Nigeria is a high risk environment. The state of insecurity across regions contributes to a very high political violence risk. The growing secessionist sentiments in the South-east and now south-west will influence the outlook for the rest of the year. And in the face of the recession due to the pandemic and the external debt position, the government is largely unable to spend the economy out of recession.

Risk ratings

- 6 – Very high
- 5 - High
- 4 – High medium
- 3 - Medium
- 2 – Medium low
- 1 - Low
- 0 – Not rated

CPI, Press freedom

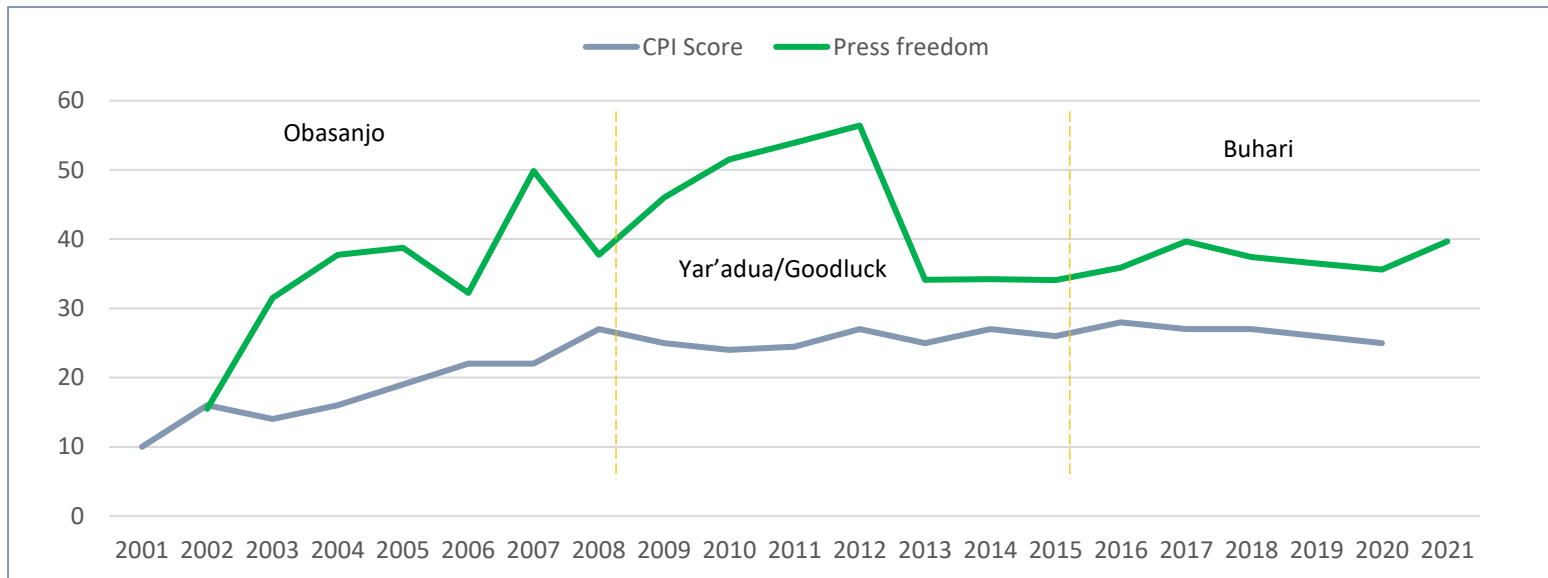


Figure 8: Performance of CPI and Press freedom in Nigeria |Source: Transparency International, Knoema

Attack on Press freedom was highest in 2007 and 2012 (The lower the point, the better). The Buhari administration appears to have favoured press freedom relative to previous administration. However, we see the trend spiking up in 2020 through 2021. This is due to the #EndSARS campaign.

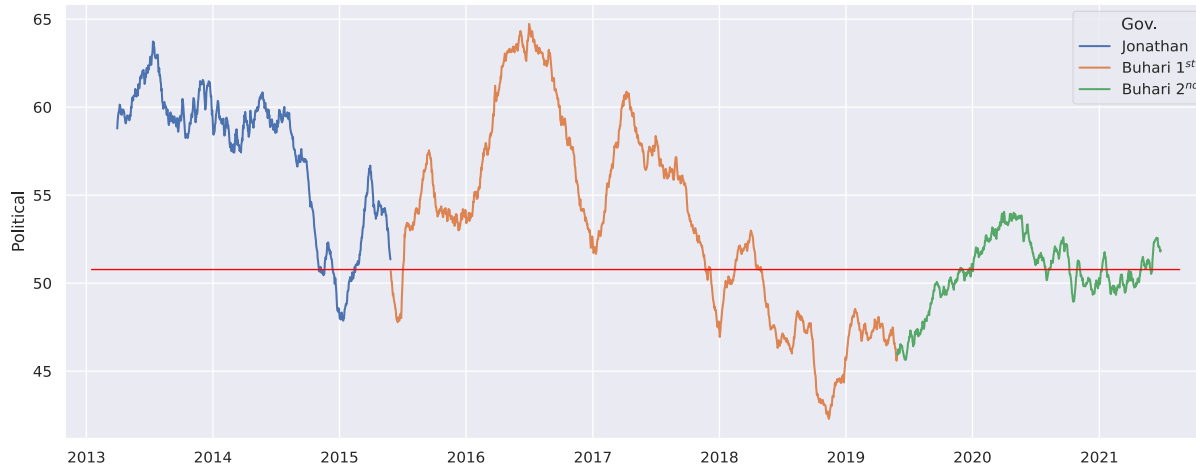
We have seen in recent time the suspension of Twitter and the deliberations to control the press, This would shape the outlook for the rest of the year.

The CPI score shows Nigeria is tending towards 0 – highly corrupt than away from it. Buhari’s administration started out well in terms of perception of corruption but has since seen a moderation in the optimism on anti-corruption.

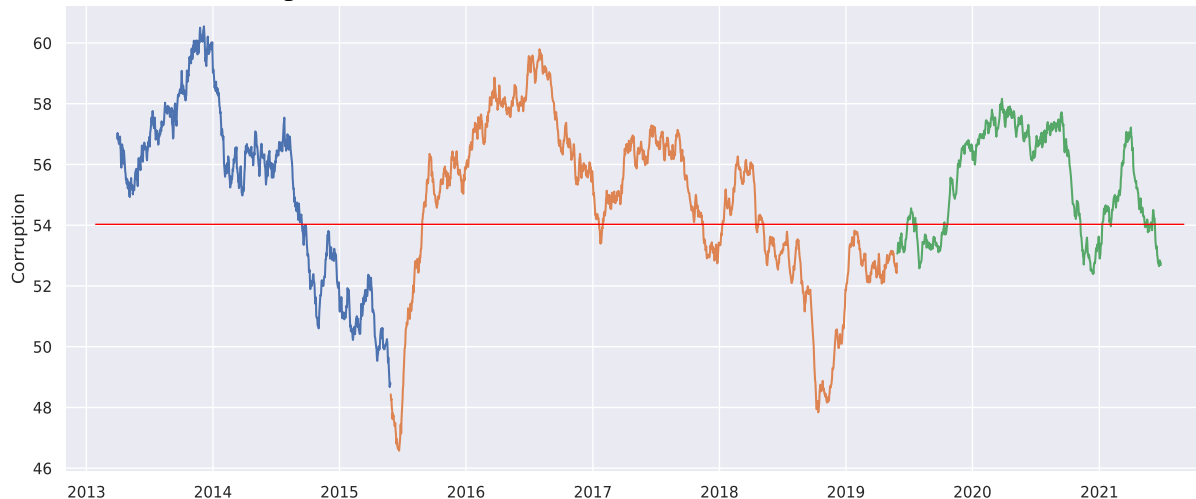
As of 2020, the CPI score was 25. Nonetheless, CPI score has improved over the years since the transition to civil rule.

Native Insight Governance Pessimism Indices

Panel A: Political Pessimism Index



Panel B: Corruption Pessimism Index



- Panel A & B show the performance of the indices over time for different political regimes. The indices have rich dynamics and pick up significant political and social developments.
- For example, political pessimism and corruption pessimism declined in the early days of Buhari’s presidency as people were optimistic about the new administration’s change mantra and the “war against corruption”. However, optimism waned as the administration began on a rather slow pace without justifiable outcomes. Similarly, both indices spiked towards the end of 2020 and early 2021 following the #ENDSARS campaign which was a period of heightened political uncertainty in Nigeria.
- The trend in the panels suggest that a period of optimism would be one where political pessimism is below 52% and corruption pessimism is below 55%.

<https://nativeinsightng.com/data-and-analytics/>

Outlook for the rest of the year



Unabated, insecurity in Nigeria especially in the Northeast would fester throughout the region. Productivity especially in agriculture would be hindered. And amplified by the woes of the pandemic, political insecurity would rub-off on food security, reversing all efforts made towards reducing hunger and poverty in Nigeria over the last decade.



The secessionist sentiment sweeping through the Nigeria is an ideology that is gaining faces in the respective regions. The arrest of both Nnamdi Kanu and Sunday Igboho are events to track this year. It is important that the government keeps an eye on a broader picture through the trial of both individuals.



We would see increased tension between the leading party, APC, and the main opposition party, PDP. There will be more cross-carpeting as a part of the campaign strategies for the 2023 election. This incidence has shaped the deliberations on the electoral act, and would influence the outcome of the election in 2023.

The combined effects of the pandemic and security situation would linger through the year, affecting businesses and delaying investment decisions. This means that we would expect to see slow growth (at best), continued government spending, high inflationary environment and unemployment. Rising number of jobless youths imply a rising army for guerrilla unrest and social vices.



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