CORPORATE PLANNING AND STRATEGY

Q3 2020 REVIEW
AND
OUTLOOK FOR Q4 2020

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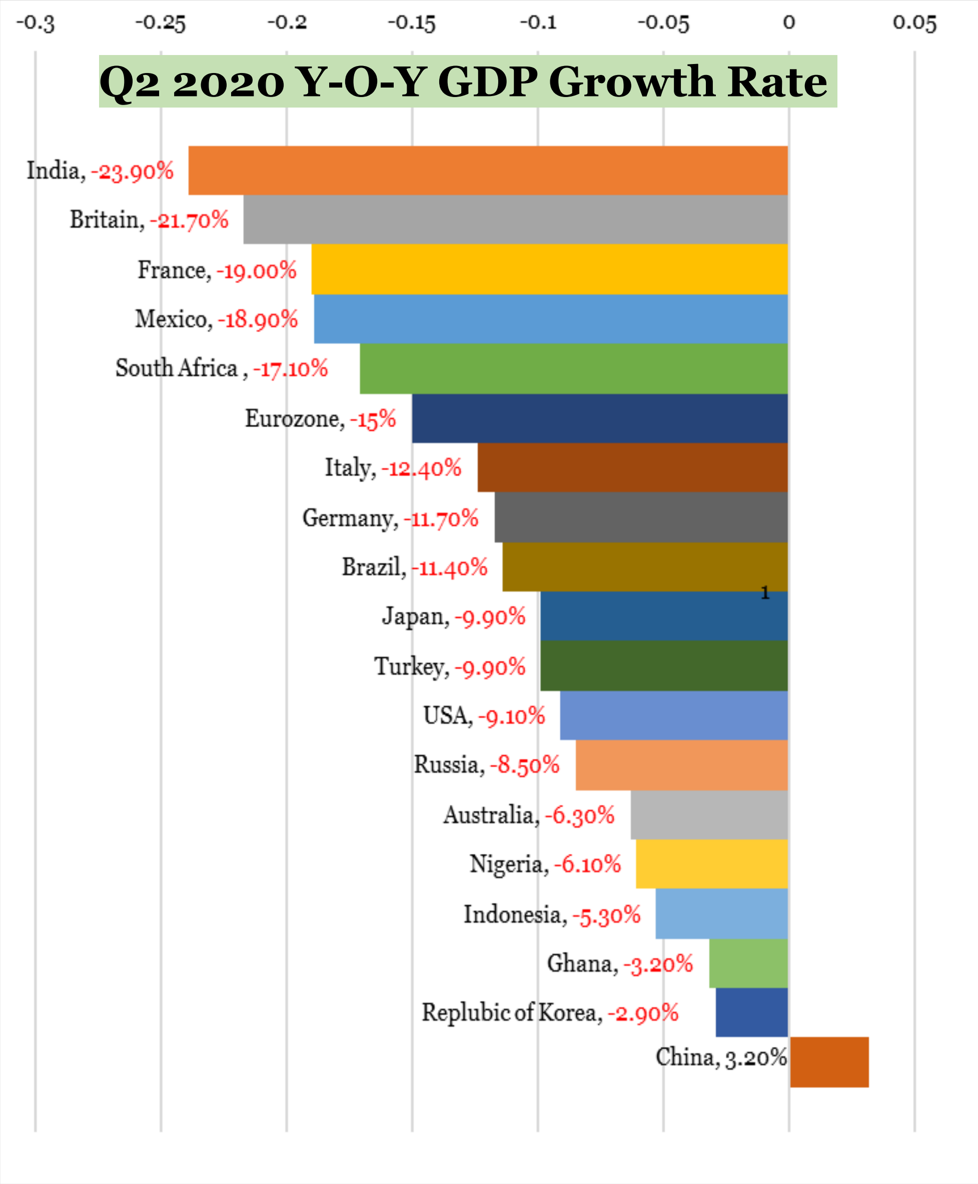
Global Economic Landscape

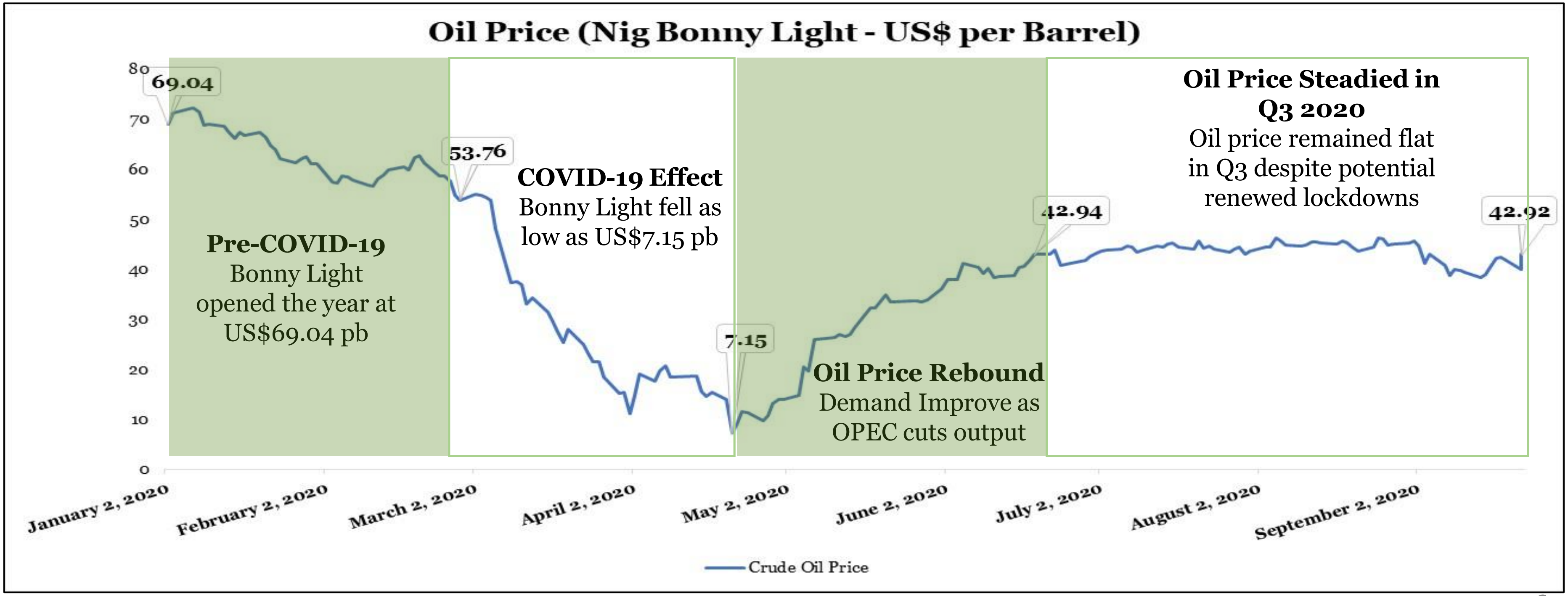
GDP Contraction around the world - Can the world survive another recession?



- The entire world has felt the impact of COVID-19 pandemic.
- All OECD countries recorded negative GDP growth in Q2 2020.
- India and Britain led the pack of reviewed countries from the rear, with negative economic growth of over 20%. Among the reviewed economies, only China recorded positive GDP growth (3.20% Y-O-Y).
- South Africa led the negative growth trend in Sub-Sahara Africa with -17.10% GDP growth, having dipped into recession at the end of 2019.
- Nigeria recorded a negative GDP growth of -6.10% in Q2 2020 (the highest in over a decade). Q3 2020 growth is expected to remain negative, which will officially plunge the economy into a recession.
- **The global economy is projected by IMF to recover in 2021 with a growth of 5.4%.**

Oil Price Was Stable in Q3 2020

- Crude and product prices have experienced excessive volatility in 2020, following the unprecedented oil demand shock in 1H20 caused by the COVID-19 pandemic as industrial facilities shutdown.
- The global oil market started to recover gradually since May, recording three consecutive months of increases, mainly supported by the decision of the OPEC and non-OPEC countries to adjust production, with the goal to restore balance in the market.
- Oil prices was stable in July and August at around $42 despite considerable uncertainties regarding the pace of the oil demand recovery amid a continued rise of COVID-19 infections worldwide concerns about potential renewed lockdowns and as global oil stocks remained at high levels. The fluctuations in the last three months still makes the oil market volatile.

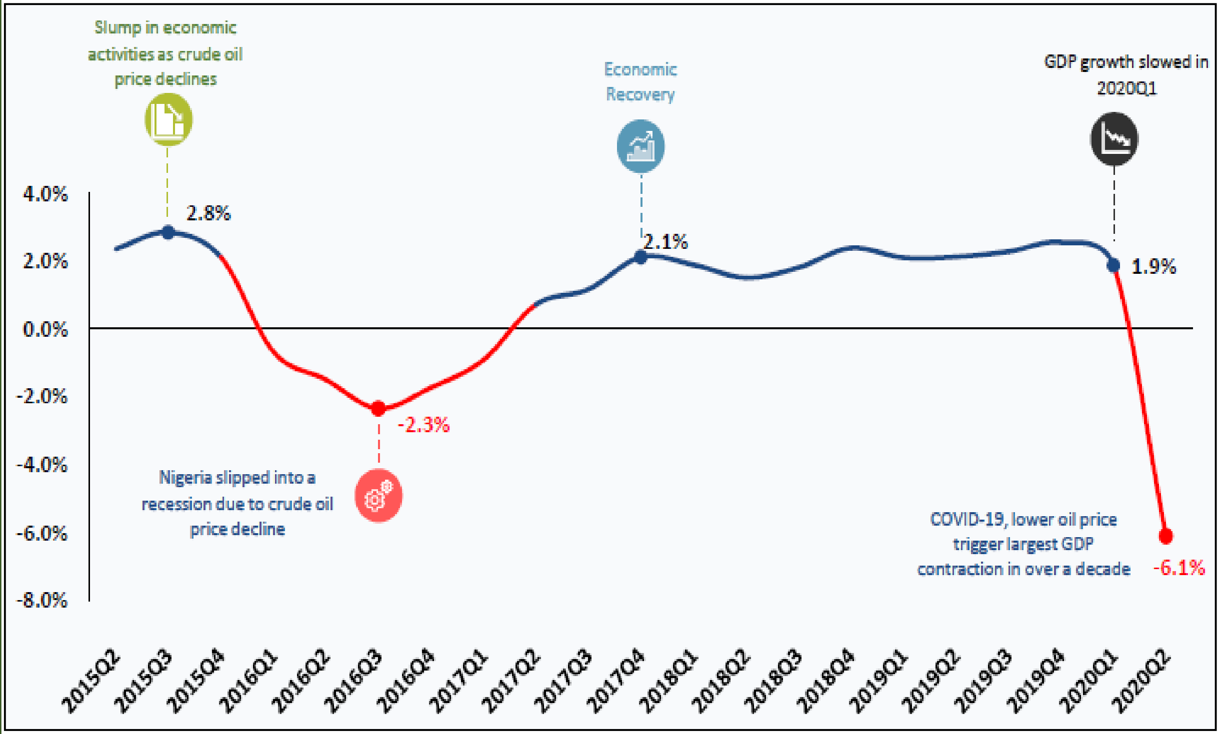


Source: CBN

The Nigerian Macroeconomic Environment

The Nigerian economy contracts by -6.1% in Q2 2020

Nigeria's GDP Growth Rate



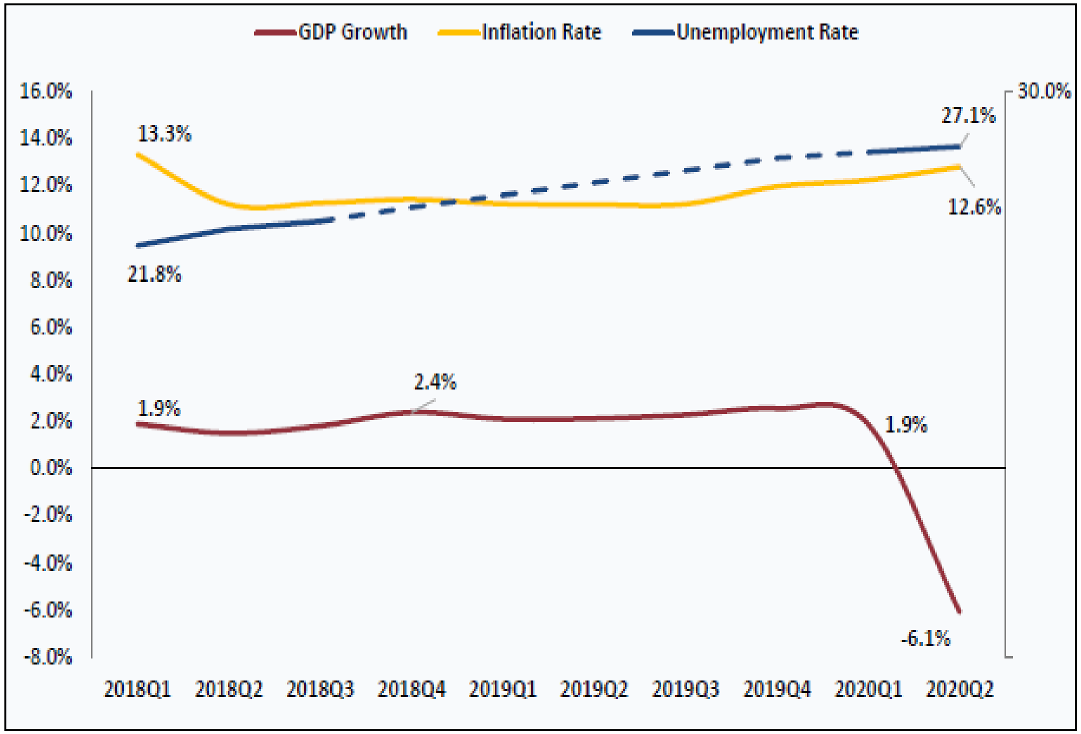
Source: National Bureau of Statistics

- The Nigerian economy contracted by - 6.1% in the second quarter of 2020.
- This represents the highest quarterly decline since the first quarter of 2004 (-7.6%).
- The contraction in GDP was as a result of the decline in crude oil price and the implementation of lockdown and movement restrictions due to COVID19.

- Nigeria joins the list of countries - South Korea (-3.3%), Singapore (- 41.2%), US (-9.5%), Germany (-10.1%) - that experienced GDP contraction in Q2.
- The negative trend is expected to continue throughout the year 2020.

Nigeria faces severe stagflation as GDP declines, Unemployment & Inflation rise

Nigeria's GDP Growth Rate, Inflation Rate, and Unemployment Rate



Source: National Bureau of Statistics

The impact of COVID-19 was largely felt on output, employment and inflation.

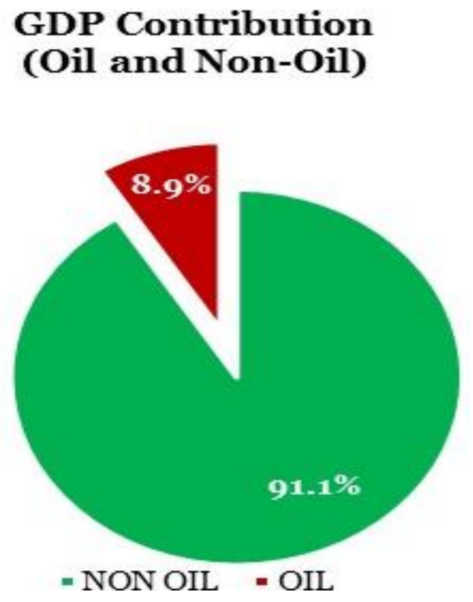
With COVID-19, many companies engaged in non-essential items were forced to shut down operations.

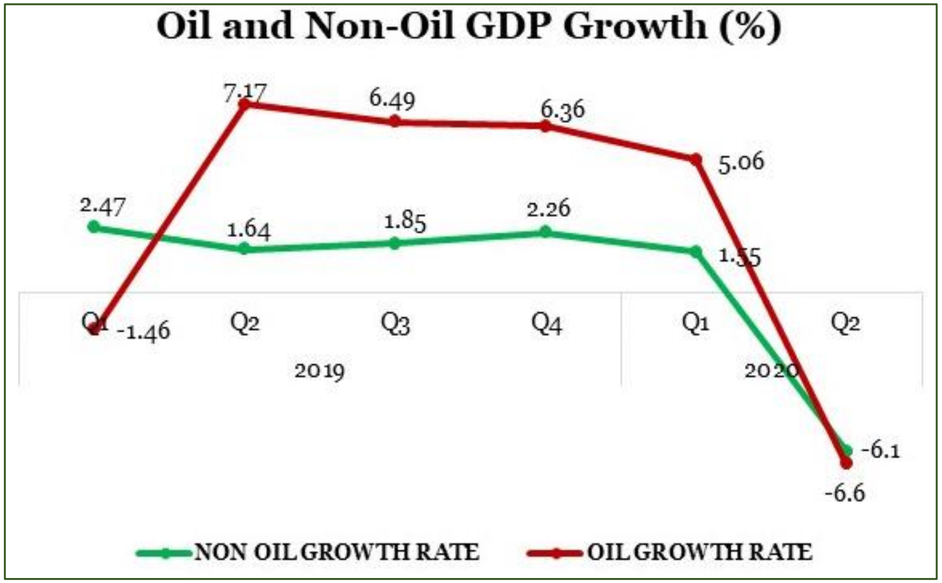
Consequently, the total number of employed person in the country declined to 35.6 million while Unemployment rate rose to 27.1% in Q2 2020.

A fall in output was also accompanied by rising prices with inflation rate at 12.6% in June 2020. Supply bottlenecks and value chain disruption were largely responsible for the rise in inflation.

Key sectors such as Agriculture, Trade and Manufacturing experienced significant job losses.

Both Oil & Non-Oil GDP declined in Q2 2020 as a result of COVID-19

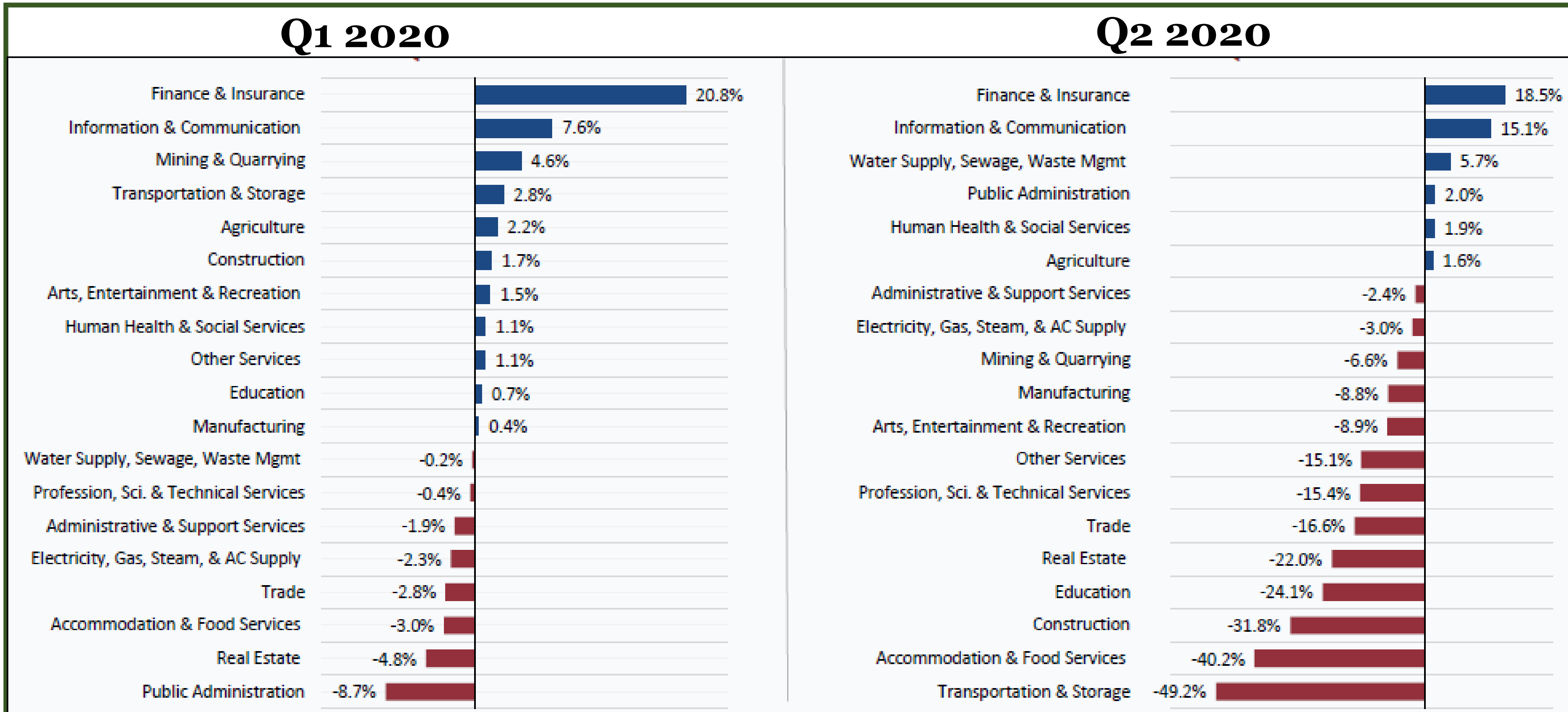




Source: National Bureau of Statistics

- The oil sector reversed its positive growth trend and declined by 6.6% in the second quarter of 2020.
- Lower crude oil production in the quarter, mainly as a result of low demand, led to a contraction of the sector.
- The non-oil sector which had been resilient was also affected by the lockdown and restrictions.
- The sector's output declined by 6.1% in the quarter. Manufacturing and services led the sector's decline.

Sectoral Growth: 13 out of 19 sectors contracted in Q2 2020 from 8 in preceding quarter



Source: National Bureau of Statistics

- Q2 2020 saw a contraction of 13 out of the 19 major sectors following the implementation of social distancing policies as a result of COVID-19.
- Transportation, Accommodation and Food Services, Construction and Education were directly affected by these policies.
- ICT and Finance displayed significant growth as COVID-19 necessitated remote working.

NBS COVID-19 Impact Survey: Percentage of respondents that STOPPED working

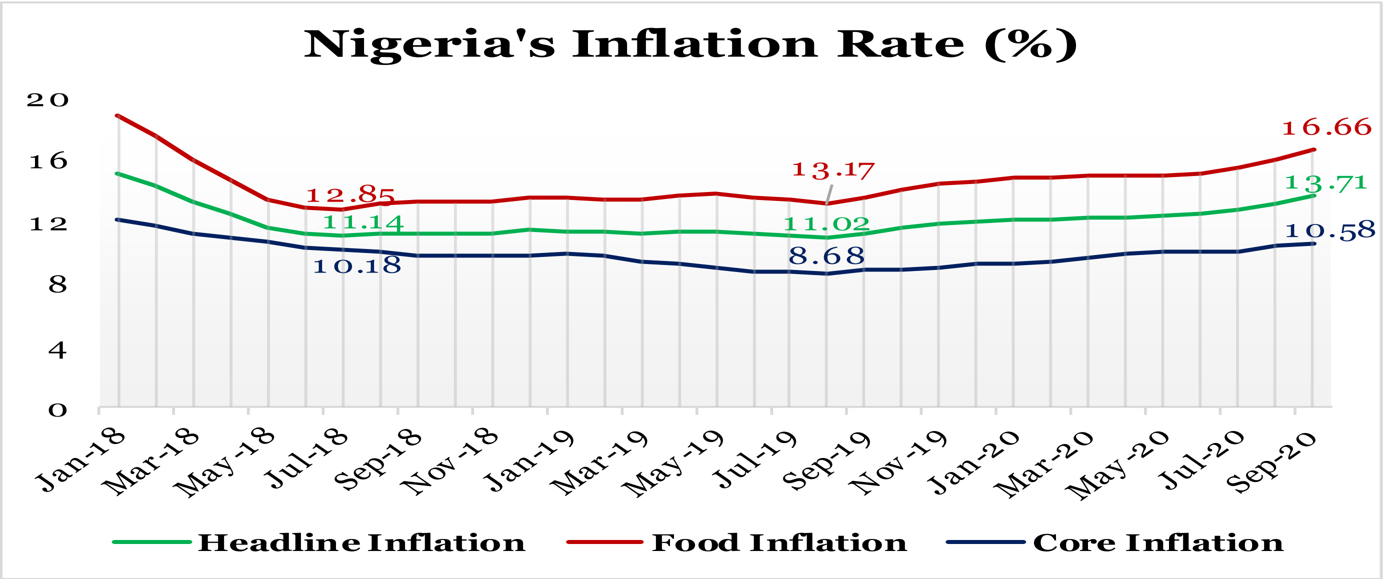
	Between Mid-March and April/May	Between April/May and June	Between June and July
Agriculture	24.8%	39.5%	37.3%
Mining & Utilities	2.1%	1.8%	1.0%
Construction, Transport & Professional Act.	16.9%	10.6%	21.7%
Commerce	29.4%	22.1%	16.1%
Public Administration	7.3%	5.3%	1.0%
Services	19.5%	20.9%	22.9%

Source: National Bureau of Statistics

- Reconciling sectoral growth with job losses, it is evident from the NBS data that labour intensive sectors that experienced slowdown/decline in output, accounted for larger job losses in the second quarter of 2020.
- Results from the NBS COVID-19 impact survey showed that 55% of respondents stopped working between March and July as a result of the pandemic, with only 27% returning to work in July 2020.

- Nigeria's two biggest sectors – Agriculture and Trade (commerce) - both in terms of contribution to GDP and employment, experienced slowdown in activities as the government implemented lockdown and restrictions in Q2 2020. For agriculture specifically, while the sector grew by 1.6%, job losses were significant due to seasonal factors and interrupted access to seedlings/farms/markets among other factors.

Inflation rate rose faster to 13.71% in September 2020

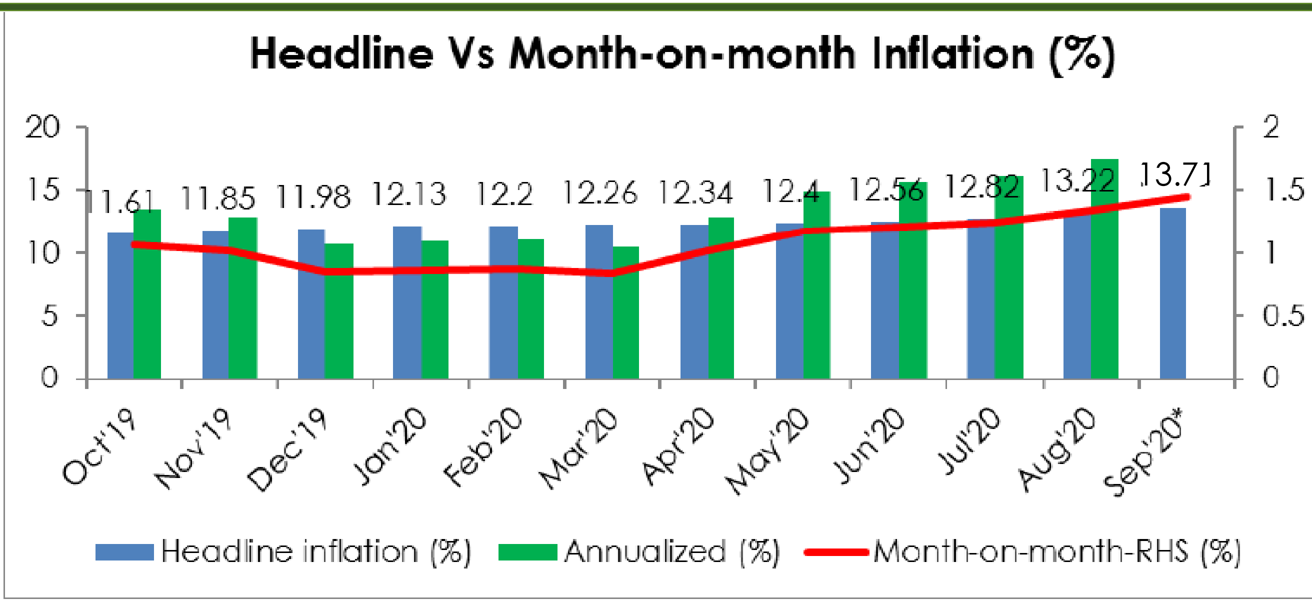


Source: National Bureau of Statistics

- Nigeria's inflation rate rose significantly to 13.71% in September 2020 from 13.22% in August. This represents a 49 basis points increase, the highest increase since October 2016.

- Inflation rate has increased consistently since August 2019 following the effect of the land border closure along with structural challenges.
- As in previous months, food inflation continued to be the major driver of inflation in Nigeria.
- In September, average prices rose by 1.48% on a month-on-month basis.
- Issues of exchange rate pressure, insecurity, increase in VAT, removal of fuel subsidy, structural factors relating to infrastructure and power supply deficit as well as exchange rate depreciation continue to drive up average prices in Nigeria.

Headline inflation to remain high in Q4 2020

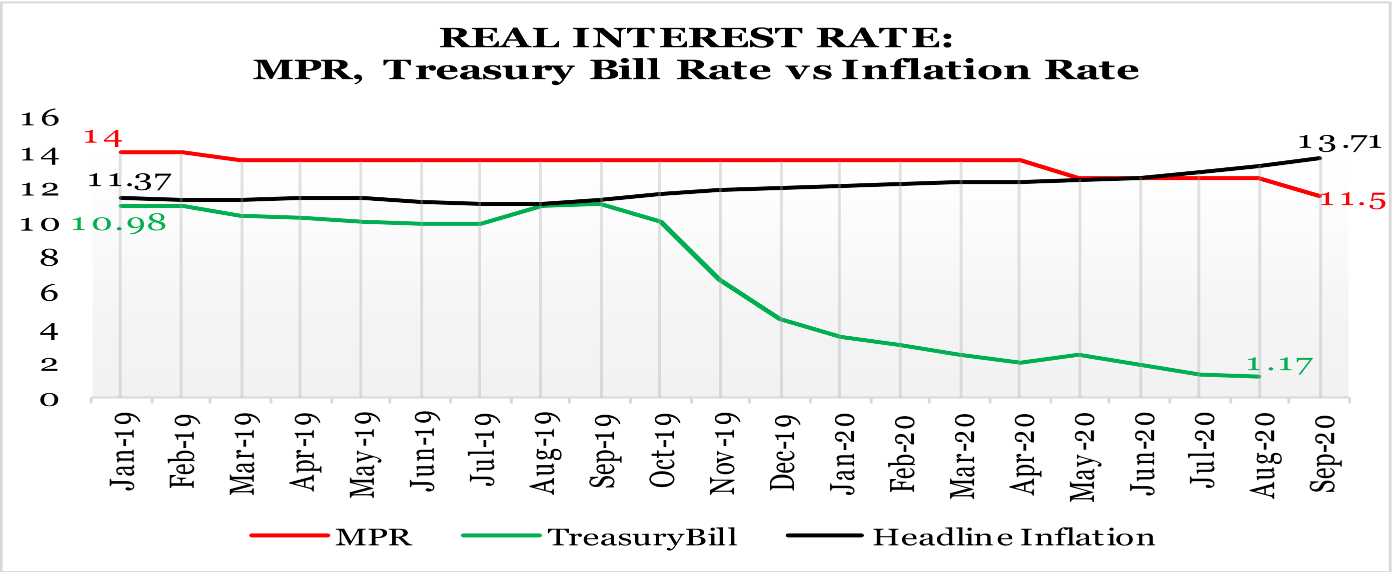


Source: National Bureau of Statistics, FDC

- Nigeria's inflation rate rose significantly to 13.2% in August 2020 from 12.82% in July.
- Just in: September figure of 13.71% was released shortly before the publish of this report. All points to the consensus that inflation will continue its upward trajectory in Q4'20.

- Supply chain disruptions (logistics) and output constraints (flooding and security challenges) combined with money market saturation are likely to exert upward inflationary pressures. This will be further compounded by the electricity tariff hike, currency weakness and forex scarcity
- Food inflation increased for the 7th consecutive month to 16.7% in September and is likely to rise further in October in spite of the harvest. This is largely due to supply shortages triggered by flooding and rising insecurity in the food belt.
- Addressing the challenges surrounding the four components of food security (access, affordability, utilization and stability) in Nigeria would involve a deliberate effort by policymakers to set aside contingency funds and engage key stakeholders.

Real interest rate maintained its negative trend, extends to -12pp in August 2020



Source: National Bureau of Statistics

- The gap between interest rate (Treasury Bill) and inflation rate widened further to -12 percentage points in August (July: -9.4pp).

- Excess liquidity in the fixed income space led to a further decline in interest rate, while structural factors and FX challenges resulted in an upward movement of Nigeria's inflation rate.
- These structural factors, coupled with insecurity in some parts of the country, and currency pressures are expected to drive up inflation in the fourth quarter of 2020.

- This trend will further extend the gulf between interest rate and inflation in coming months with implications on real investment earnings.

Nigeria's FX shortages could forestall economic recovery in Q1 2021

GDP decline of -6.1% in the second quarter of 2020 is the first negative growth since the first quarter of 2017. In the first half of 2020, GDP growth averaged -2.12%.

In H2, we expect this sluggish economic performance to continue especially given the lockdown of key sectors, the tough business climate and persistent challenges in the fiscal space.

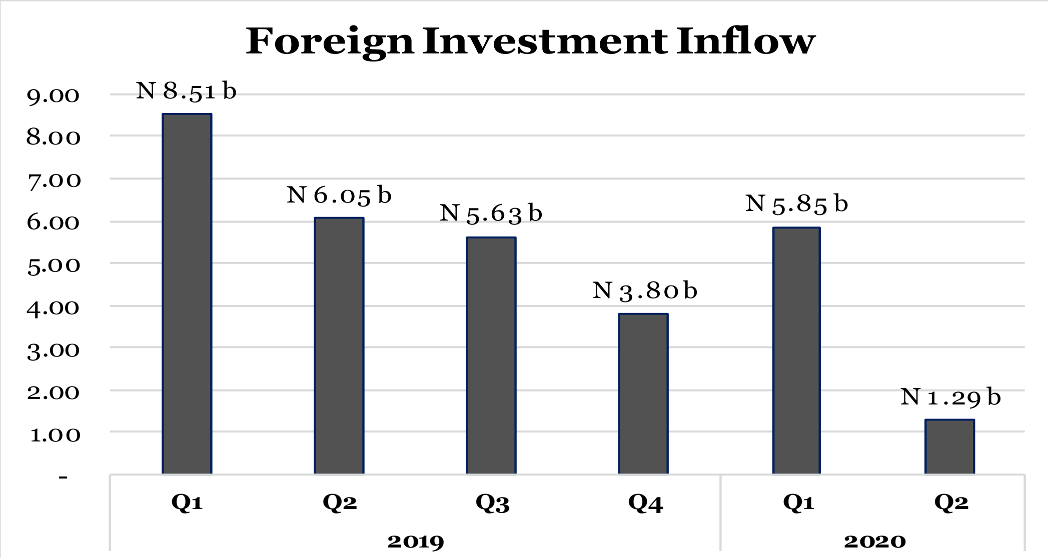
In addition, Nigeria's foreign exchange challenge will play a major role in shaping economic outcomes in 2020 H2. Already, there have been limited FX supply which has resulted in depreciation of the currency in the parallel market.

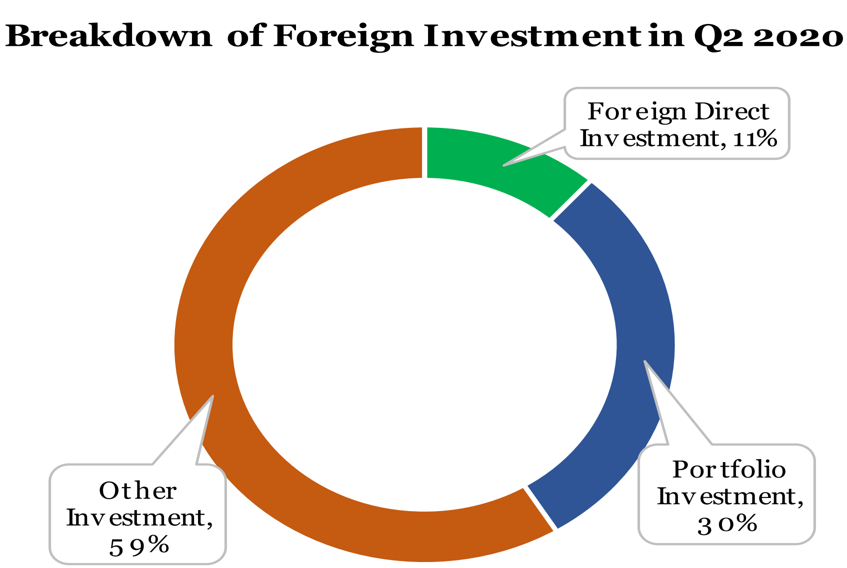
More recently, the CBN has embarked on FX rationing and exchange rate adjustments, among other measures, to reduce pressure on the Naira and maintain a stable exchange rate.

Drawing from experience during the last recession, limited availability of FX as well as FX rationing could have unintended consequences on broad economic aggregates such as GDP, Inflation, external reserves and foreign investments.

Growth of key sectors such as trade, manufacturing and agriculture could also be constrained by limited availability of FX to secure inputs.

Foreign Investment Inflow Slowed Further in Q2 2020... Expected to Dip Much Further in Q3 2020

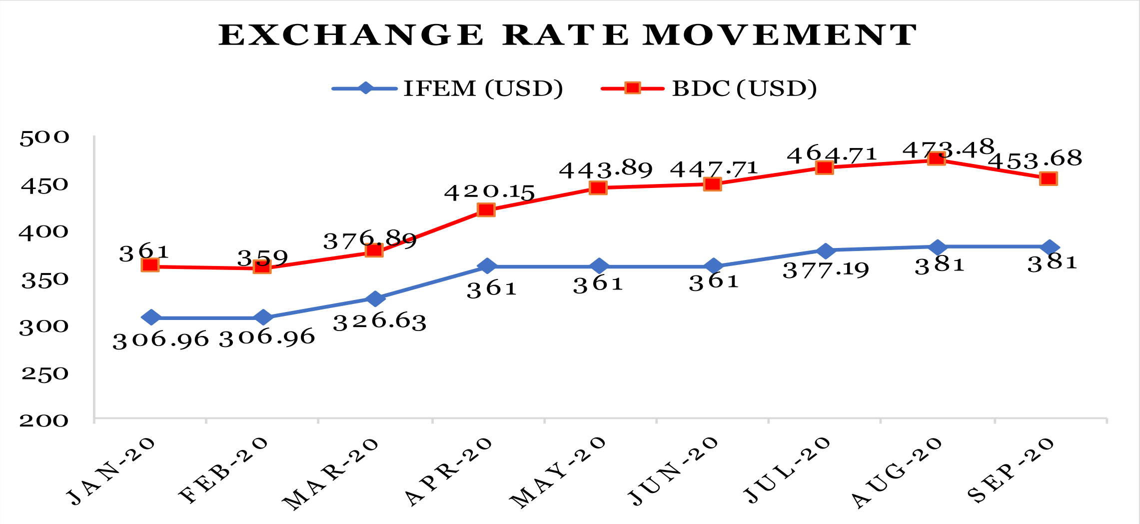


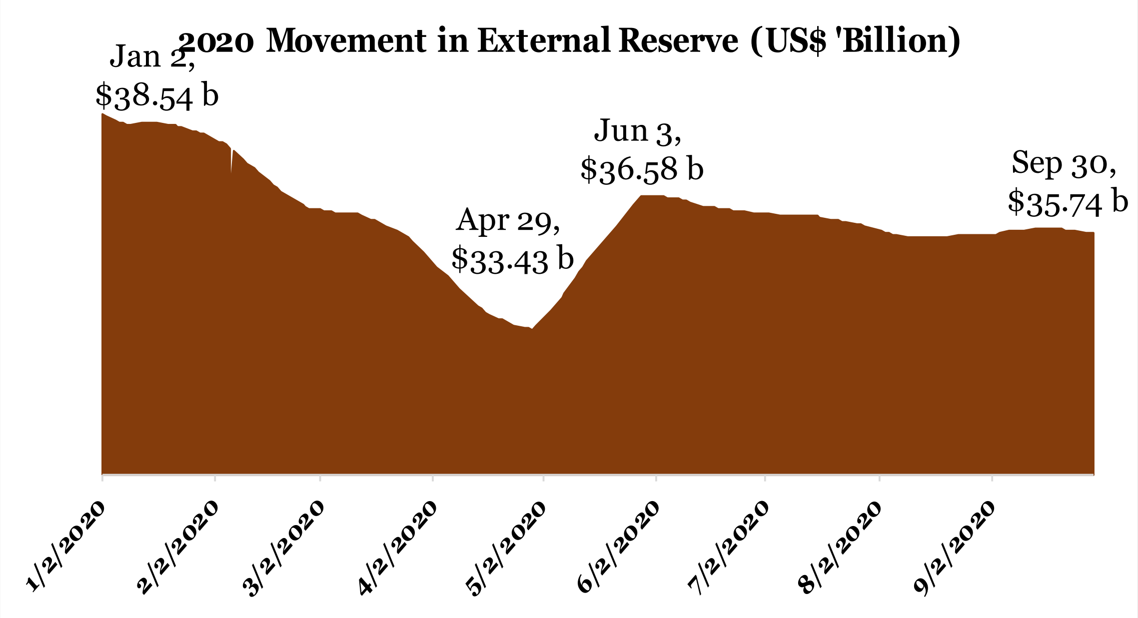


Source: National Bureau of Statistics

- In the Q2 2020, foreign capital inflows into Nigeria amounted to US$1.29 billion, a sharp decline of (-77%) from US$5.85 billion in 2020Q2 and a 79% decrease from US$6.05 billion recorded in Q2 2019.
- Foreign portfolio investment, which had dominated capital inflow since Q2 2017, witnessed significant capital flight and trended behind other investment in Q2 2020 and accounted for 30% of the entire forex capital importation in Q2 2020.
- The fall in foreign investment in Q2 2020 was majorly led by the deep in Portfolio Investment, which slumped by over 91% to $385 million from $4.3 billion in Q1 2020.
- Still performing abysmally, FDI inflows in Q2 2020 fell to US$149 million from $214 million and $223 million in Q1 2020 and Q2 2019 respectively.
- In terms of share of total inflows, FDI accounted for 11% in view of the weakness of portfolio investment during Q2 2020.
- This explains the continued weakness of Naira, and the limitation of the CBN to defend it since May 2020.

Exchange Rate Margin Widen Between May 2020 and September 2020



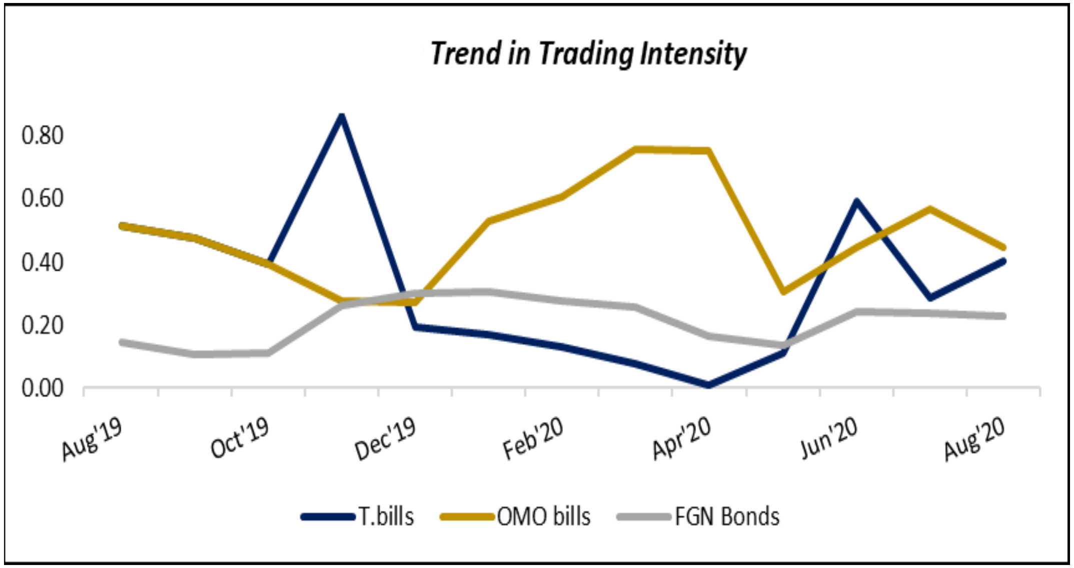


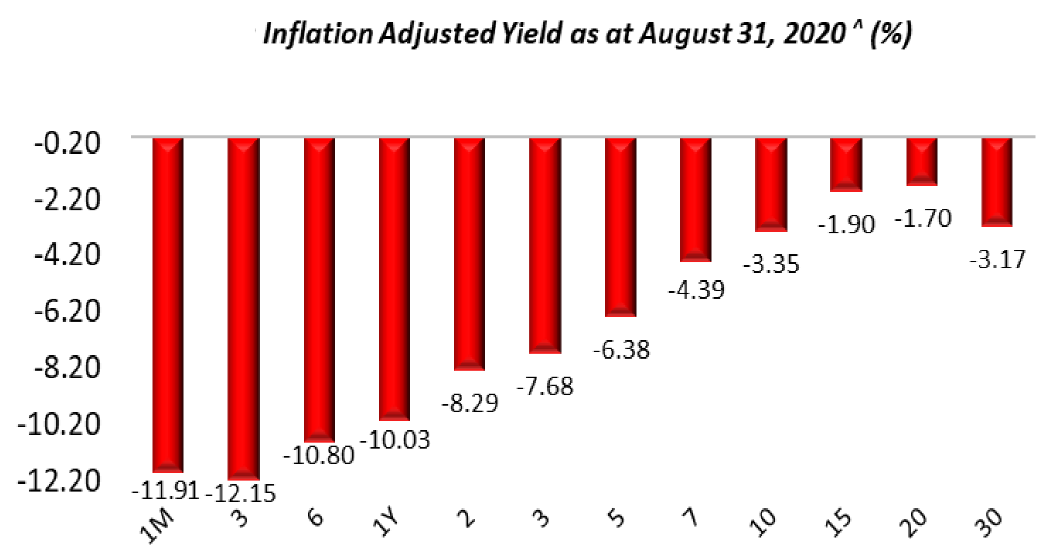
Source: CBN, FMDQ

- From mid-March the exchange rate faced significant pressure in the I&E window.
- This pressure stemmed from declining external reserves and falling crude oil prices, weakening foreign investment.
- The Naira fell from N367/US$ in early March to 401.6 in mid-April but has stabilized around N380/US$ at end of Q2 2020.
- The gap between the official rate and BDC rate widened between April and September 2020, giving room for speculators to act within the market.
- To manage the influence and activities of speculators and other illicit users of forex, CBN introduced stiffer BDC policies, and further introduced product price verification and the usage of ultimate suppliers as beneficiaries of form M and LCs.
- Reserves stood at US$35.74 billion on September 30, 2020.

Market Review

Fixed Income – Lower Yield Recorded Across Tenors

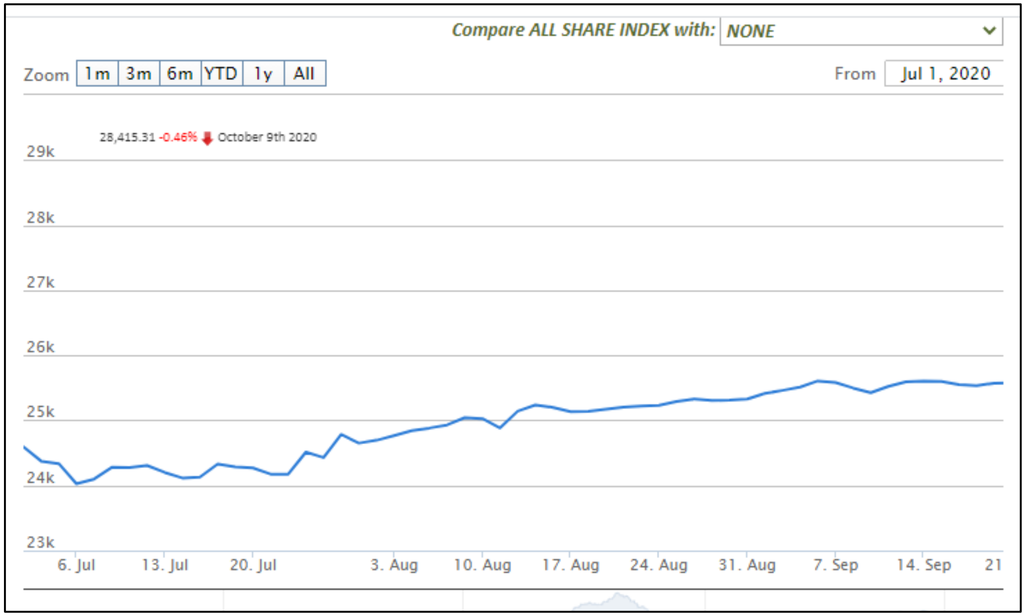




Source: FMDQ

- Sentiments across the domestic fixed income market was largely bearish in Q3 2020.
- both Open Market Operation (OMO) and FGN Treasury Bill (NTB) yields which averaged 5.1% and 2.2% at the end of Q2 2020, converged at 1.9% at the end of Q3 2020.
- Similarly, the year-long rally at the bond market continued in Q3-2020 as the average yield on FGN Bond dipped from 8.6% as at the end of June 2020 to end Sept-2020 at 6.8%.
- Additionally, inflation-adjusted yields remained negative across the short, medium and long-term tenors in the same Quarter.

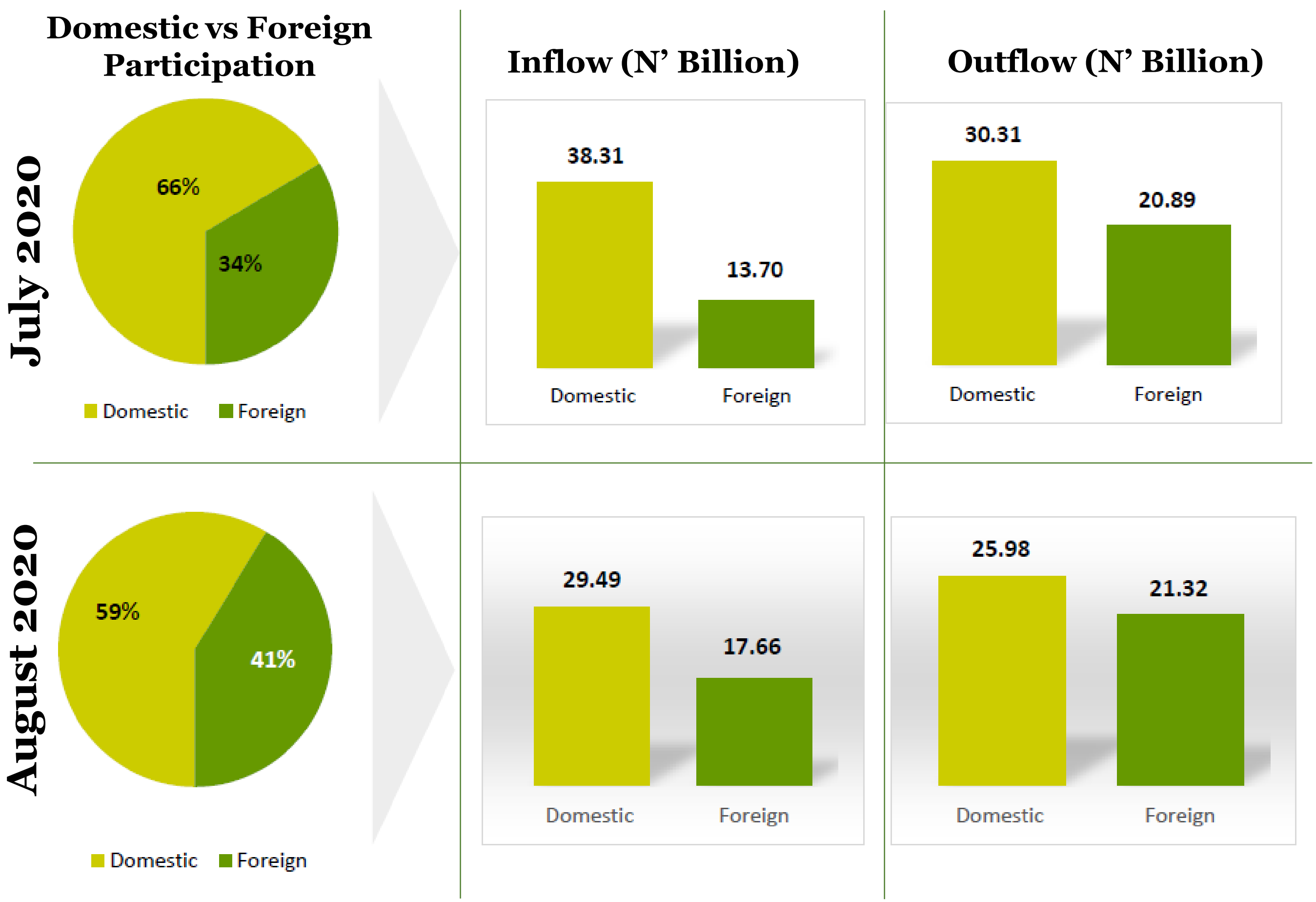
Equity Market –Signs of Recovery noticed in Q3 2020



	NSE ASI	Market Capitalization	NSE-30	NSE Banking
3-Jul-20	24,336.12	N12.695 trillion	1,044.50	267.55
2-Oct-20	26,985.77	N14.105 trillion	1,156.24	315.33
Change	10.89%	11.11%	10.70%	17.86%

- The Nigerian Stock Exchange showed signs of gradual recovery despite the weak inflow of foreign portfolio investment within Q3 2020.
- This is largely owing to the return of commercial and economic activities, after intense period of lockdown in Q2 2020. As the trade and real sector activities improves, with the opening of the air and (possibly) land borders, it is expected that this rebound will continue into last quarter of the year.
- The NSE-ASI rose from a weak 24,336.12 index points on the 3rd of July 2020 to 26,985.77 on 2nd of October 2020, representing 10.89% growth, as investors gained about N1.41 trillion within the quarter.
- The bullish record was also prevalent within the NSE-30 stocks and the Banking stocks, as they both grew by 10.70% and 17.86% respectively within the quarter.

Equity Market – Uncertainties Limit Foreign Participation



- Domestic funds continued to dominate Foreign participation in the Equities market through Q3 2020 with 66%% and 59% of the market transactions undertaken by domestic investors in July and August respectively.
- In both July and August, Domestic Inflow into the market stood at N38.31 billion and N29.49 billion respectively against N13.70 billion and N17.66 billion from foreign inflow.
- The weak participation of foreign portfolio investors in the market accounts remains one of the pressure points on Nigeria's forex position in during the Quarter

2020 Fiscal and Monetary Policy Reactions

Critical Reforms and Policy Decisions in 2020

(Jan'20)
CRR increased by 500bps to 27.5%

(Mar'20)
Partial deregulation of the downstream oil sector

(Mar'20)
- Exchange rate adjustment (I)
- Official & IEFX rates pegged at N360/$ and N380/$ respectively

(Jul'20)
- Exchange rate adjustment (II)
- Official exchange rate adjusted to N379/$

(Jul'20)
Liberalization of the downstream oil sector

(Aug'20)
CAMA bill amended

(Sept'20)
Cost reflective electricity tariffs

(Oct'20)
- PIGB submitted to NASS
- Commencing the ratification of AfCFTA

Impact:
- Stabilized Exchange rate.
- Freed up resources allocated to subsidy.
- Improvement in electricity service by Discos

Trend of Policy Reversals, Concessions & Contradictions in 2020

(Feb'20)
- Forex waivers granted to six dairy companies

(May'20)
- MPR reduced by 100bps to 12.5%p.a

(Jul'20)
- Ban on maize imports

(Aug'20)
- 3rd party buying agents prohibited from LCs
- Price verification scheme introduced

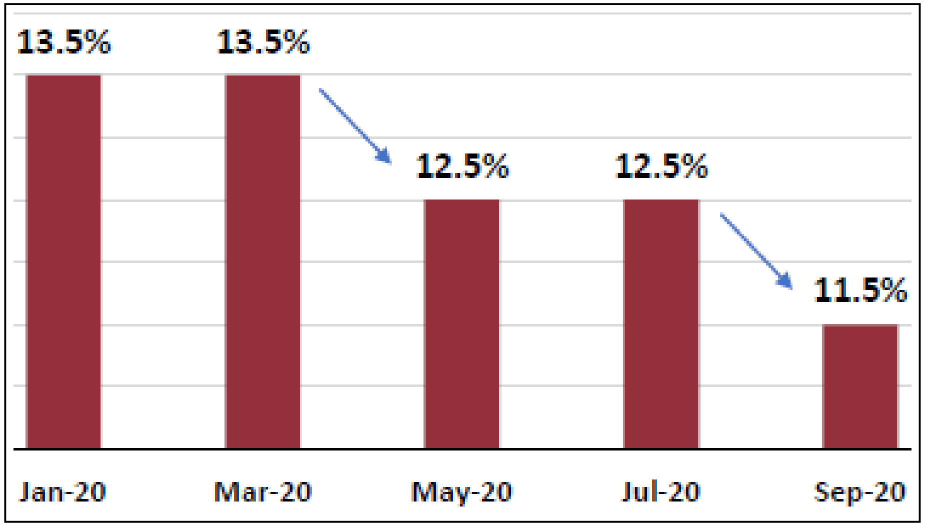
(Sept'20)
- Selective maize import approval granted

(Sept'20)
- MPR lowered by 100bps to 11.5%p.a
- Asymmetric corridor adjusted to +100/- 700

(Sept'20)
- Dom account transfers to 3rd parties prohibited

(Oct'20)
- Interest rates slide further (OMO/Tbill) below inflation.

MPC reduces MPR to 11.5% from 12.5%



- MPC has reduced MPR twice so far in 2020
- Liquidity Ratio has remained unchanged at 30%
- Cash Reserve Ratio was changed in January to 27.5% in 2020.

- The CBN Monetary Policy Committee (MPC) held its fifth meeting of the year on September 21 and 22, 2020.
- At the meeting, the Committee took the following decisions:
  - ≈ Reduce the MPR by 100 basis points from 12.5 percent to 11.5 percent;
  - ≈ Adjust the asymmetric corridor from +200/-500 basis points to +100/-700 basis points around the MPR;
  - ≈ Retain the CRR at 27.5 percent; and
  - ≈ Retain the Liquidity Ratio at 30 per cent.
- Earlier in the third meeting of the year, the Committee reduced the Monetary Policy Rate (MPR) from 13.5% to 12.5% and cited the need to support economic growth following the impact of COVID-19.

MPC reduces MPR: Key Considerations

- Possibility of an economic recession in Q3 2020
- Exchange rate adjustment
- Rising public debt
- The need to stimulate local production and aggregate demand
- Security challenges in the country
- Deregulation in electricity tariff

- Low crude oil price
- Rising inflation rate and heightened inflationary pressure
- Dwindling capital inflows in the financial markets
- The need for Deposit Money Banks to lower the cost of credit
- Adverse weather conditions which could affect agricultural output and prices of commodities
- The increase in petroleum pump price

Monetary Policy Direction in Q4 2020

- Low yield environment is here to stay at least till the end of 2020.
- With inflation trending 1,100 basis points above risk free interest rates
  - ✓ What happens to maturing OMOs held by PFAs
  - ✓ As Banks are unwilling to accept new deposits (LDR implication, interest rate implication, punitive CRR debits)
- The CBN will closely watch the relationship between M2 growth & forex demand
- An adjustment in the forex rate and a sale of forex backlog will suck out N2trn - N3trn.
- The MPC will be reluctant to reverse its position in November 2020.
- It will depend on how high the GDP and inflationary trend. Q3 GDP figures is scheduled to be released on November 23rd (same day as the MPC meeting).
  - ✓ If the numbers come in worse than expected, it might compel the committee to make a tough call.

Monetary Policy Direction in Q4 2020 - Downside

The CBN will be monitoring closely the interplay between exchange rate, interest rate and inflation rate with the hope that it does not fall into these traps in Q4 2020

- **Likely introduction of Price control**
- **Shortages of forex**
- **Backlash from public**
- **A fall in investor confidence**
- **Wider spread between the official and parallel markets**
- **Opportunity for speculators to pounce**

Public Debt and 2021 FGN Budget Proposal

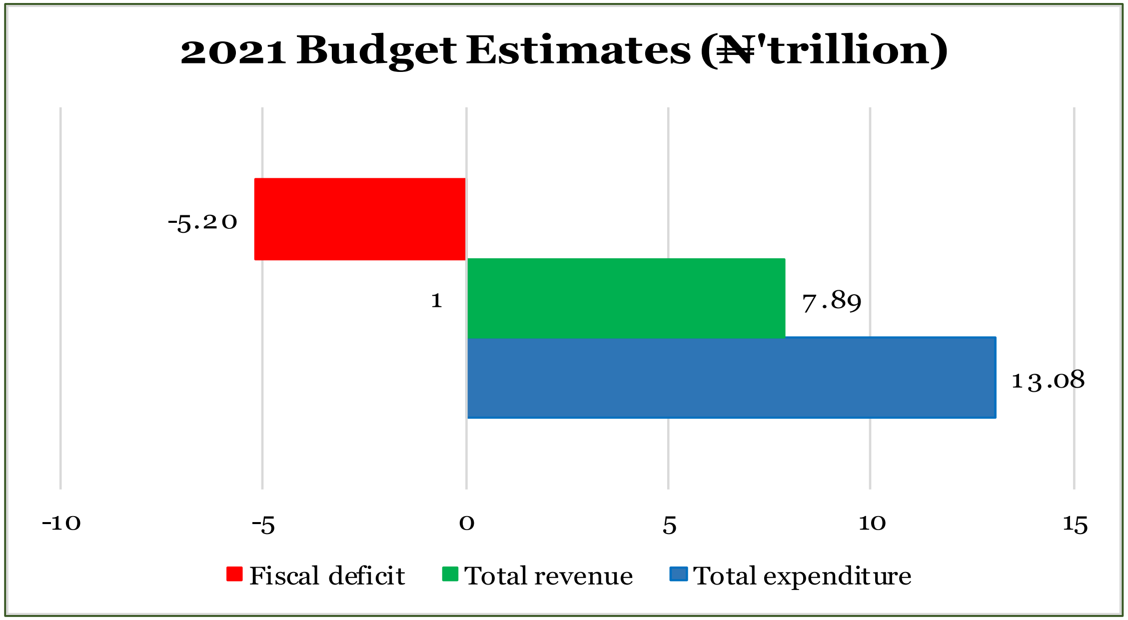
Nigeria's Public Debt rises to N31 trillion at the end of June 2020

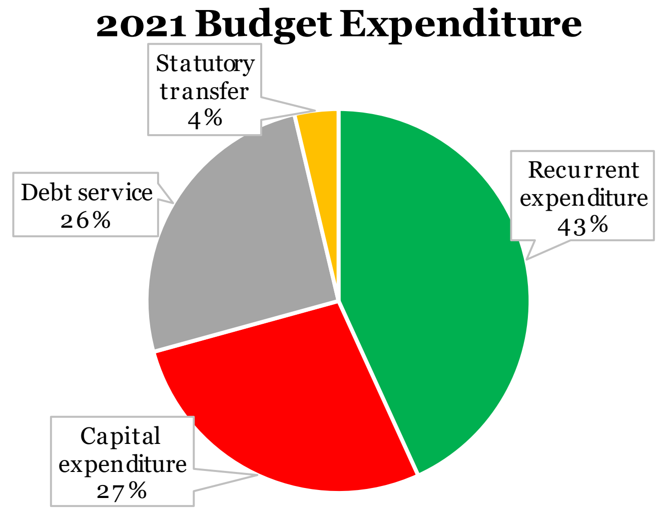
	Debt Category	Amount Outstanding (US$'M)	Amount Outstanding (₦'M)	% of Total	Q2 2020 Debt Servicing (₦'M)
A	**Total External Debt**	**31,477.13**	**11,363,243.93**	**36.65%**	**103,622.55**
	- FGN Only	27,214.08	9,824,282.88	31.68%	
	- States & FCT	4,263.05	1,538,961.05	4.96%	
B	**Total Domestic Debt**	**54,419.39**	**19,645,398.21**	**63.35%**	**312,810.22**
	- FGN Only	42,813.57	15,455,699.13	49.84%	
	- States & FCT	11,605.81	4,189,699.08	13.51%	
C	**Total Public Debt (A+B)**	**85,896.52**	**31,008,642.14**	**100%**	**416,432.76**

- Nigerian Debt Stock (States and Federal) data as at 30th June 2020 reflected that the country's total public debt portfolio rose to N31.01trillion from N28.6 trillion at the end of March 2020.
- N11.36trn or 36.65% of the debt was external while N19.65trn or 63.35% of the debt was domestic.
- Debt Servicing in Q2 2020 alone hits N416 billion.
- Generated revenue between January and July 2020 stood at N2.10 trillion (a prorated revenue performance of 68% of the revised 2020 budget) – Implication: more borrowing

2021 FGN Budget: *Budget of Economic Recovery and Resilience*

Budget Assumption	2020 Approved Budget	2020 Revised Budget	2021 Proposed Budget	% Change
Benchmark oil price	US$57 per barrel	US$28 per barrel	US$40 per barrel	43%
Oil production volume (bpd)	2.18 million	1.80 million	1.86 million	3%
Average exchange rate	₦305/ US$1	₦360/ US$1	₦379/ US$1	5%
GDP Growth rate (%)	2.93	-4.42	3	168%





Recurrent Expenditure
₦5.65trn

Capital Expenditure
₦3.60trn

Debt Service
₦3.34trn

Statutory Transfer
₦0.48trn

2021 National Budget: Implementation Challenge

- ❑ Stimulus Budget – developed to reflate the economy
- ❑ Funding the budget on the back of weak revenue fundamentals
- ❑ More borrowing expected in 2021
- ❑ Completion of some ongoing Capital Projects is fundamental
- ❑ Social investment programs to be sustained
- ❑ FGN to strengthen weak revenue collecting agencies
- ❑ FGN must avoid fiscal recklessness
- ❑ We project 60-65% compliance with Capital Expenditure Budget

Last Quarter Push– What we should do
@
Unity Bank

Current Realities: What Unity Should Be Doing

- **Business Opportunities:** In view of the recent FGN 2021 budget presentation to the National Assembly and subsequent presentations by State Governments, Business Heads are encouraged to review various MDAs expenditure lines and projects in a bid to identify bankable opportunities, value chain businesses and develop tailored products and services.

- **Intensify Retail Business Drive:** In spite of the lockdown, retail and trade activities has been on the rise. It is therefore important for the Bank to sustain the recent momentum and continue to acquire more retail accounts, ensure end-to-end onboarding of customers on the Bank's e-channels as well as expand agency banking reach across business directorates.

- **Effective Loan Monitoring:** In view of the current economic realities, the importance of proactive and effective loan monitoring cannot be overemphasized. Whilst the Bank has granted moratorium to some customers affected by the pandemic, Relationship Officers are encouraged to closely monitor all exposures and work closely with these customers and proactively escalate any form of loan delinquency.

Thank You
&

BE
safe