ToKnow and ToNote - 03012022

This past week was another episode of major events in the markets and the economy. Amidst the plethora of information, here are five carefully curated developments we think you should know and note. AO

1- Presidential Assent - Following the receipt of the 2022 appropriation bill from the National Assembly, the President has signed the bill into law. The 2022 Appropriation act has a total expenditure of N17.13 trillion which is 15% higher than the 2021 budget. The expenditure estimate is based on an Oil Benchmark price of $62, Oil production of 1.88mbpd, Exchange rate of $/N410.15 and a projected deficit of N7 trillion. This is the highest projected deficit in the country's history, and it represents 3.8% as against the 3% ceiling set by the Fiscal responsibility Act 2007 (FRA). The previous high of N6.6 trillion was in the 2020 Appropriation act. The president also assented to the Finance Bill 2021.

2- Tax Exemption Expired - Accrual income on Government issued Bonds and Short-Term Government Securities are set to be taxed in 2022. On 2 January 2012, the federal government issued the Companies Income Tax (Exemption of Bonds and Short-Term Government Securities) Order, 2011. The Order granted corporate income tax waiver on all bonds and debt instruments issued by all tiers of government and corporate entities effective from 2 January 2012 for a period of 10 years. Due to the sunset clause, the exemption is no longer applicable. Also, the Finance Act 2021 signed along with the budget imposes CGT on the disposal of shares subject to a specified threshold. Capital gains tax on the disposal of Nigerian Government securities including Federal, State and Local government bonds, stocks and shares was previously exempted.

3- NTB @ 4.9% - The DMO conducted its final auction for the year and the theme remained the same. Rates on the 1-year paper declined by 10bps in what is now the 7th consecutive decline in 1-year rates at the auction. The DMO borrowed the exact amount on offer (N52.8bn) even though the bid to offer ratio was 1.55 and the narrative of a QoQ dip in marginal rates for 4th quarters continues to hold.

4- World Bank blames CBN and MoF for Inflation - The World Bank in its recently released November edition of its Nigeria Development Update has pointed fingers at monetary and fiscal authorities for the inflation experience in the country. According to the Bank, "the current mix of monetary, fiscal, foreign exchange, and trade policies also plays a prominent role as a driver of inflation. Trade and FX restrictions, including the closure of land borders starting in August 2019, have increased prices for food and consumer goods, and imports of over 40 goods, including many staple foods, are currently ineligible for FX through formal window." The biggest irony is the fact that price stability is the core objective of the Central Bank.

5- Of Stock and Currencies -The NGX All-Share Index and Market Capitalization gained by 1.07% to close the week at 42,716 and N22,296 trillion respectively. This was driven by renewed bargain hunting in the shares of some blue-chip companies. Overall, Month-to-Date and Year-to-Date returns printed at -1.23% &+6.07% respectively. In the parallel market, Naira appreciated by N6 against the Dollar, to close the week at$/N567, as demand waned on the back of business shut down for the holidays. On the other hand, the Naira crashed to $/N435 at the I & E window, despite the surge in turnover at this segment. It lost N20.27 against the dollar when compared to the previous week's closing rate $/N414.73, whilst the SMIS rate remained stable to close at $/N 430.00.

Inferences

In our view, increased cost of doing business in the form of taxes, new SEC regulatory fees and extant charges is a firm negative for market activities. We expect that the increased cost will influence the market to require better yields for the DMO. Tax gains that would have hitherto placed fixed income on a higher pedestal vis a vis commercial banks' time deposits have ceased. It is likely that will reduce demand pressure on the short end of the curve. Assuming all instruments are currently carried at their issue rates, the expiration of the tax exemption should generate about N271bn additional revenue for the Government. This should contribute to the reduction of the tax deficit. Another important thought on the N7 trillion deficit, is the fact that the SDR fund totaling $3.4 billion has been worked into the 2022 External Borrowing Plan. At the budget exchange rate $/N 410.15, this comes to about N1.4 trillion. Given that this has already been borrowed, the total funding gap left for the DMO to cover comes to N5.6 trillion. The amount to be borrowed per the original proposal by the MoF is to be split equally into foreign and local borrowing. The calendar due to be released in the next couple of days will give an indication of how they plan to finance this through bond issuances.