Nigeria's Macroeconomic Report for Q3 2024

Priorities for Economic Stability in the Short-term

October 2024

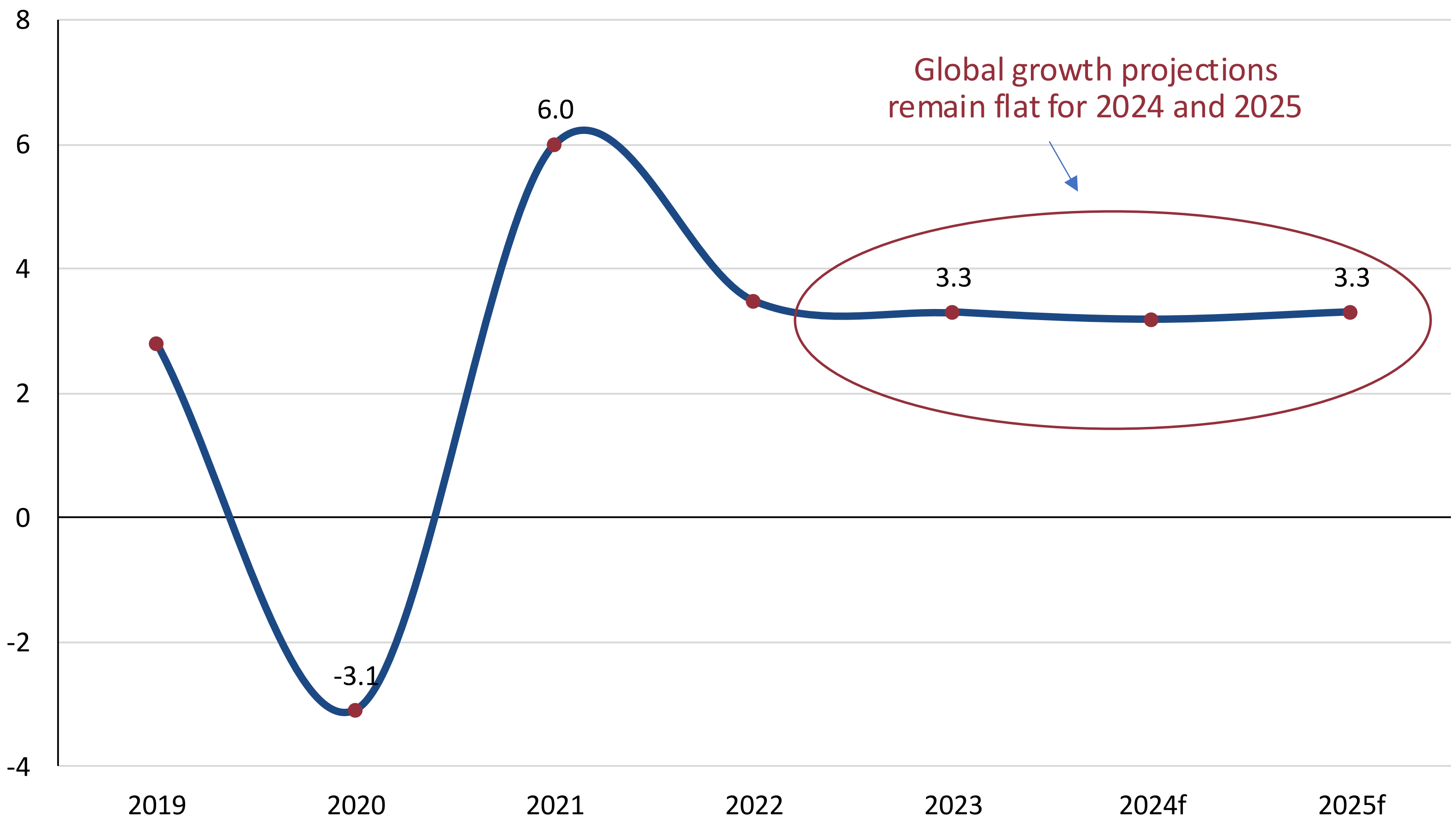
CONTENTS

SECTION 01

Review of the Global Economy

Global GDP is expected to grow by 3.3% in 2025

Global GDP Growth (%)



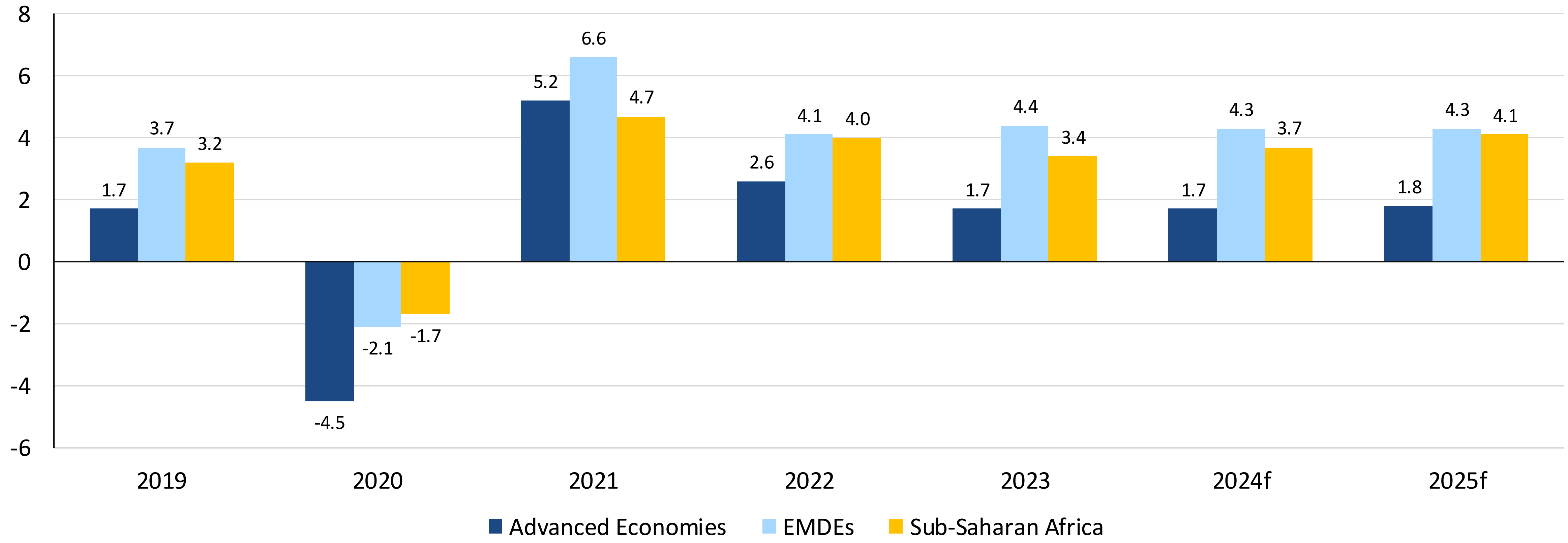
- Global GDP growth is expected to stabilise in the near term, achieving 3.2% in 2024 and 3.3% in 2025 from 3.3% in 2023.
- The moderate growth of global output reflects the continued uncertainties arising from the war in Ukraine and disruptions in the Middle East, among several headwinds.
- As a result, global output growth is expected to be constrained while prices will remain elevated.

Data Source: IMF

In 2024/2025, emerging & developing economies will influence global growth outcomes

While Emerging Markets and Developing Economies (EMDEs) will expand by 4.3% in 2024 and 2025 led by China, Sub-Saharan Africa's growth is expected to fall behind that of EMDEs. Growth in SSA is subdued by high interest rates and weak purchasing power owing to high inflation in the region.

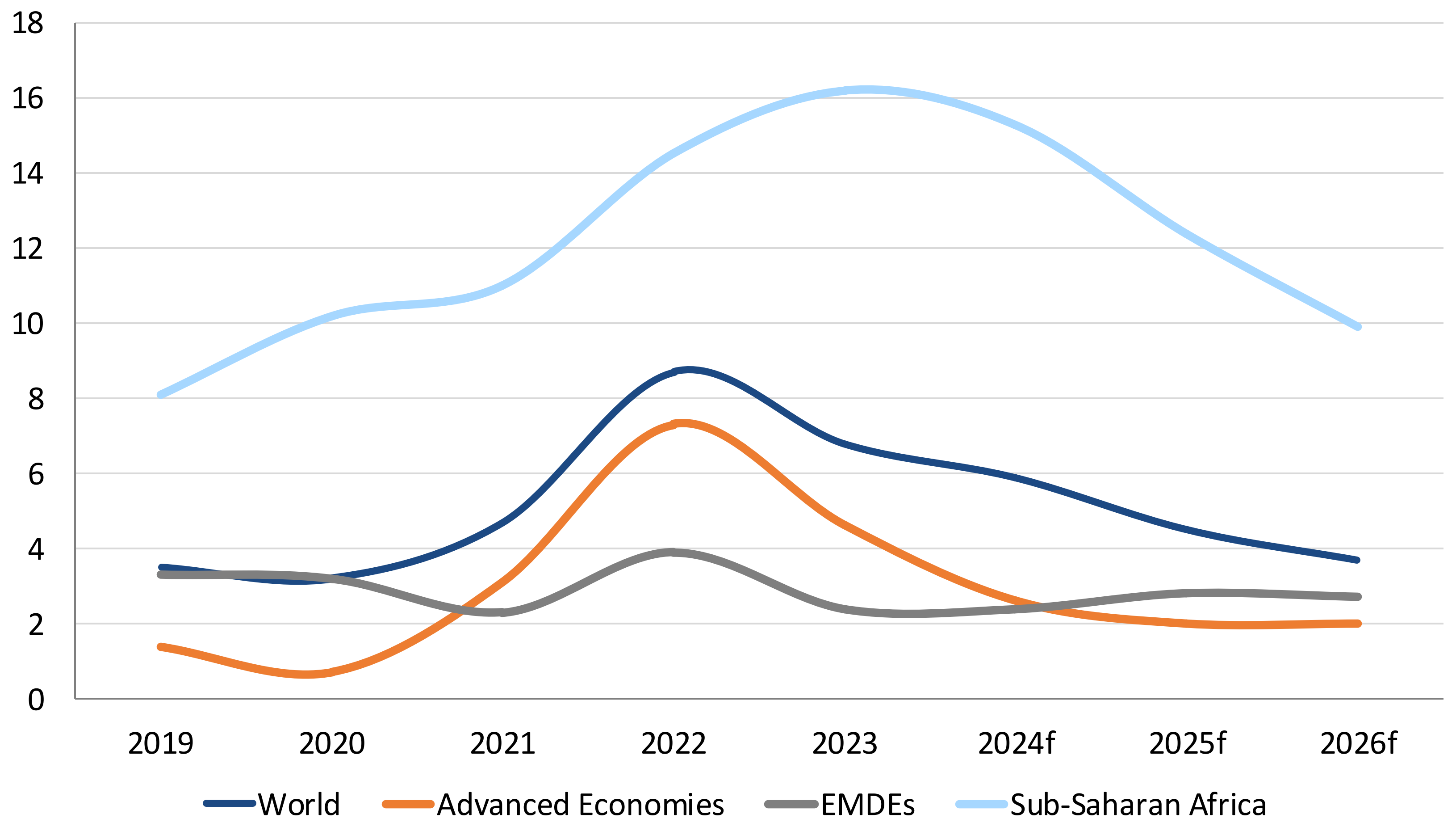
Regional GDP Growth (%)



Data Source: IMF

Inflation rate is expected to maintain a downward trend in the near term

Global Inflation (%)



- Inflationary pressures continue to decline across countries, particularly in advanced economies. Inflation is expected to fall to 2.6% in 2024 from 4.6% in 2023. It is expected to decrease further to 2% in 2025 and 2026.
- Among the EMDEs, the decline in the inflation rate will be driven by activities in China.
- Nevertheless, inflation rate is expected to remain elevated in Sub-Saharan Africa due to higher food, fuel, energy and transport prices.

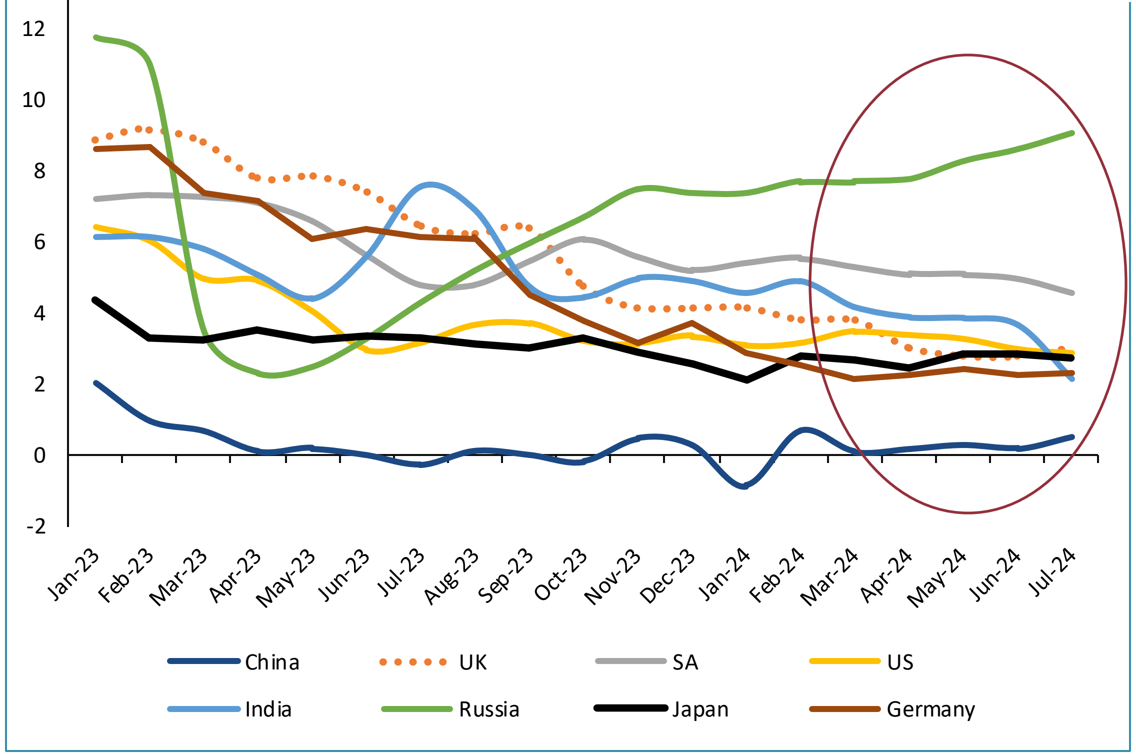
Data Source: IMF

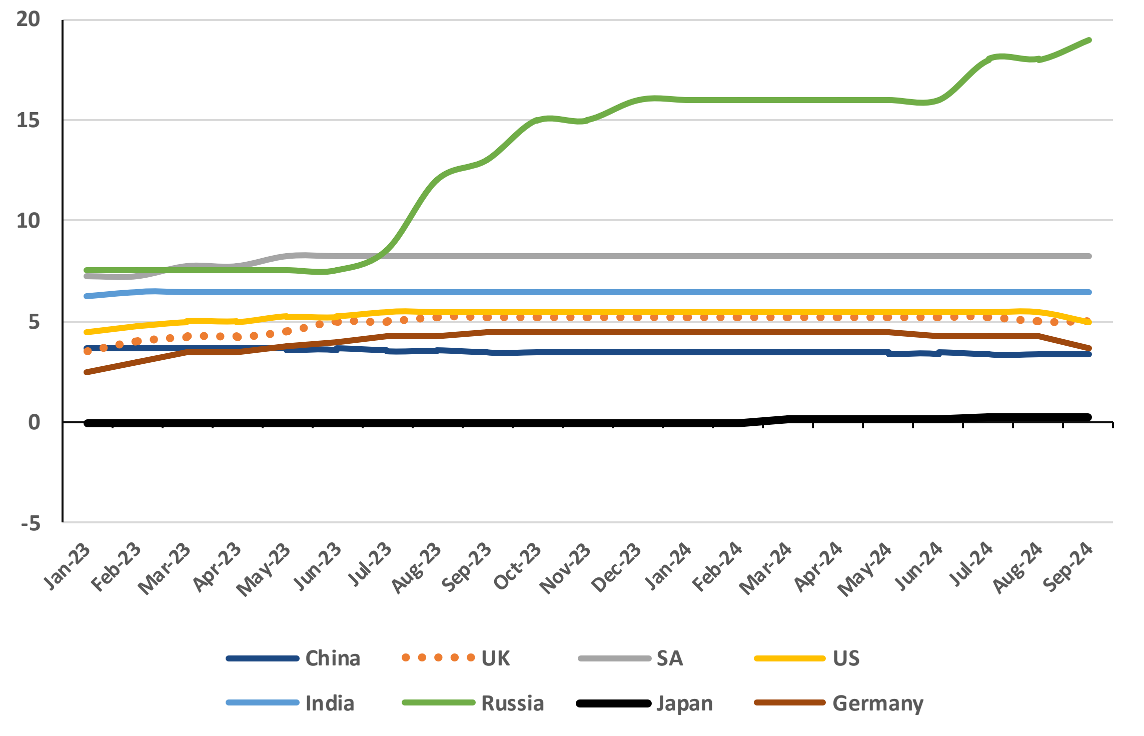
Despite the positive outlook on inflation, Central Banks' Policy Rates remain high

Inflation Rate (%)

Policy Rate (%)

Inflation rates tend to be on a decline or have been stable in major economies, except Russia

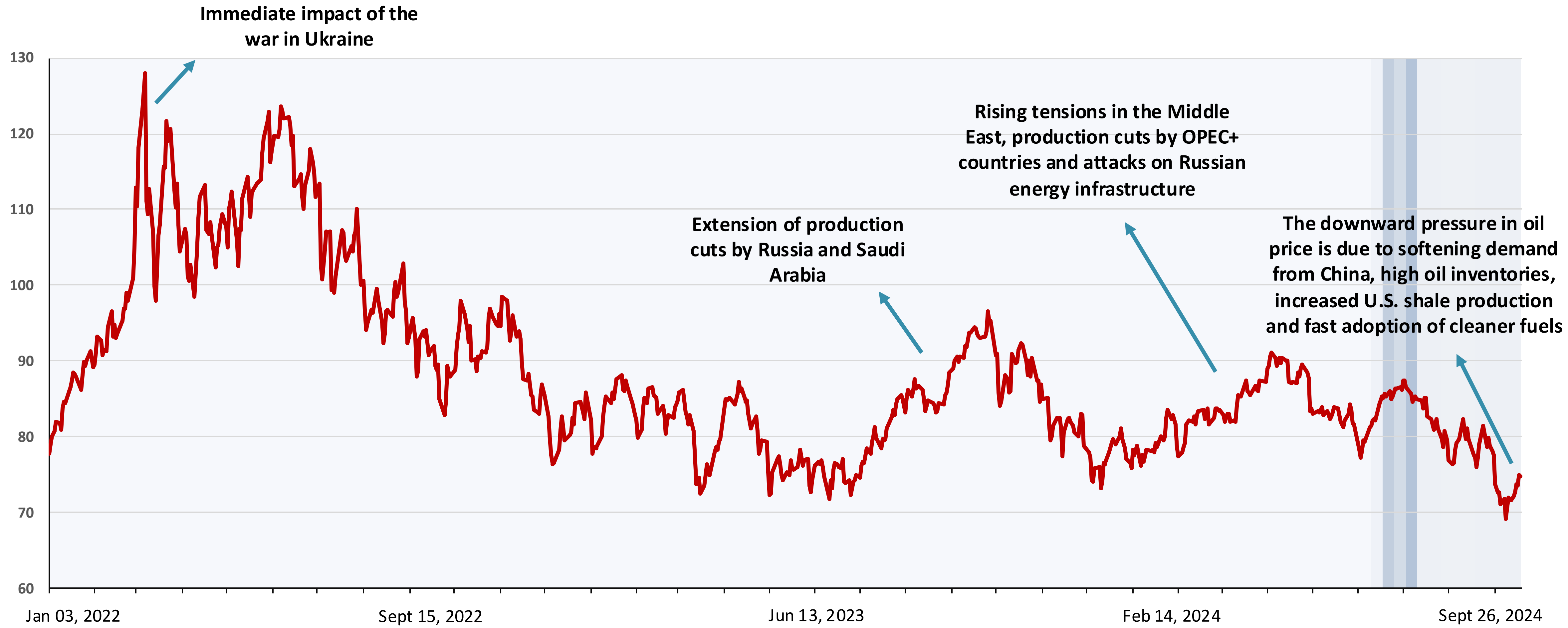




Data Source: www.inflation.eu; investing.com; TradingEconomics.com

Oil price eased in Q3 2024 due to the tepid growth outlook in China

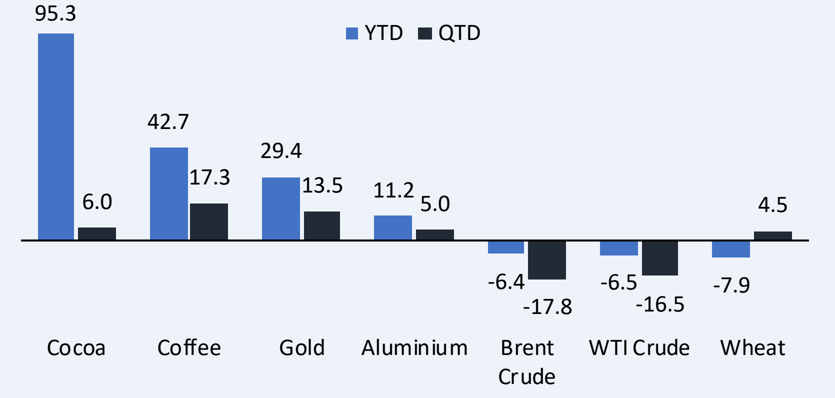
Crude Oil Price (US$ per barrel)



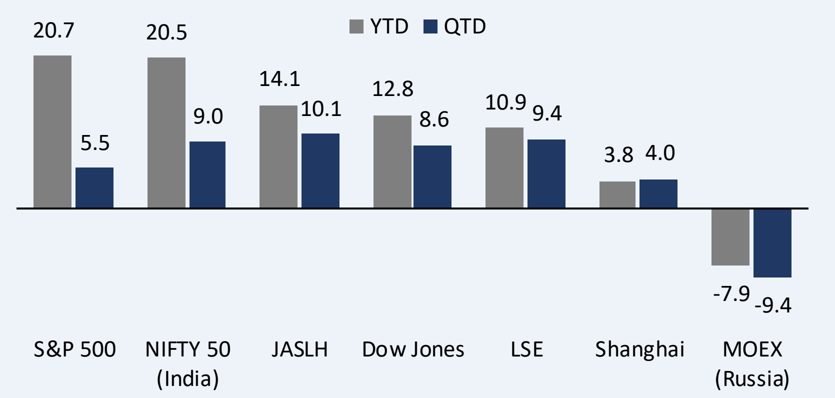
Source: FSDH Research, EIU

Commodity prices and stock market performance were subdued in Q3 2024

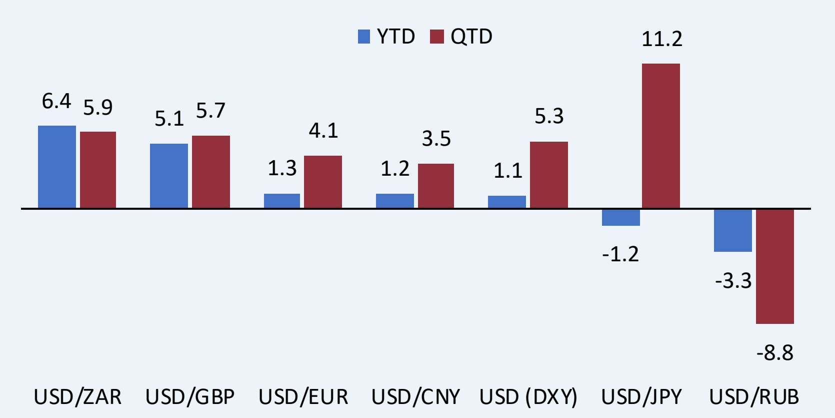
Commodity Markets Performance (% Change)



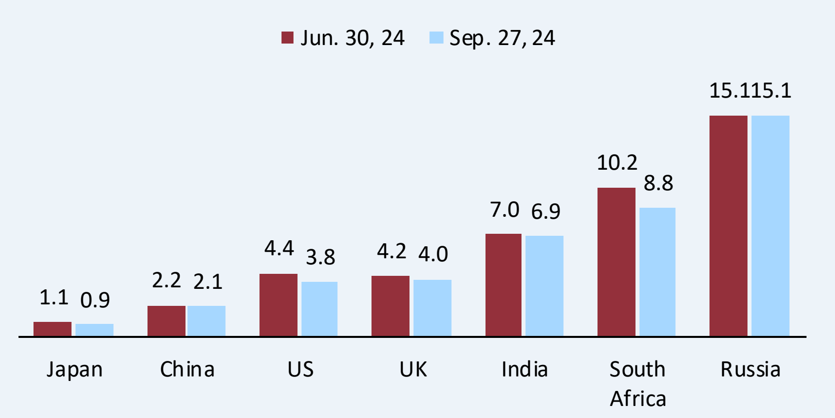
Stock Markets Performance (% Change)



Global Currency (% Change)



Ten Year Government Bond Yield Performance (%)



Source: FSDH Research, Investing.com

Note: End period for the data is September 27, 2024

Analyst Views on the Global Economy

- **Interest rates to remain high for longer.** In the face of persistent strain on the global value chain, the downward trend in inflationary pressures is not motivating a proportionate decline in policy rates. The US Federal Reserve in September 2024 cut the Fed rate by 0.5 percentage points for the first time since July 2023 to 5%, despite the steady decline in inflation since March 2024. The UK and Germany have kept policy rates high over the past several months, despite falling inflation. The delay in easing policy rates could constrain global economic growth.

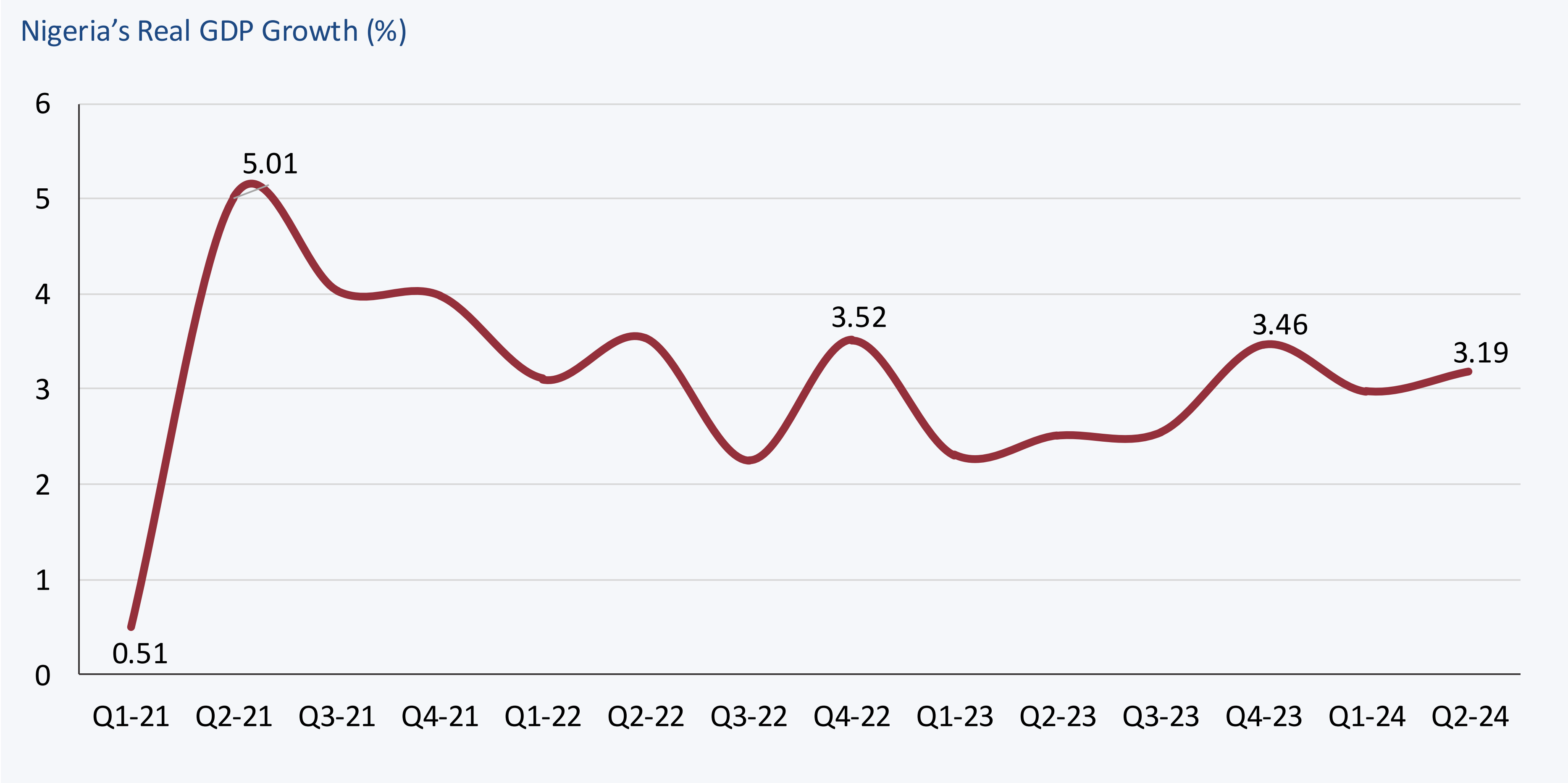
- **Geopolitical crises deepen trade fragmentation.** Geopolitical tensions, particularly between Russia-Ukraine and Israel-Palestine-Lebanon, have worsened trade fragmentation and increased trade tensions among various nations. The escalation of these crises poses significant risks to global economic growth. Further escalation could strain global supply chains, drive up commodity prices, and reverse the downward trend in inflation.

- **US Election outcome is critical for geopolitical stability.** The outcome of the upcoming US election will be pivotal in resolving geopolitical crises and easing trade tensions. The two major presidential candidates hold contrasting views on the wars in Ukraine and the Middle East, especially in facilitating peaceful resolutions. Similarly, their differing approaches to trade relations and US-centric policies will significantly impact global trade flows and the future economic trajectory.

- **Global growth outlook remains uncertain.** Overall, policy uncertainties continue to cloud the global economic outlook. As a result, global economic growth is expected to remain flat in 2025, with sluggish recovery prospects due to persistent inflationary pressures and geopolitical tensions.

Nigeria's Macroeconomic Environment

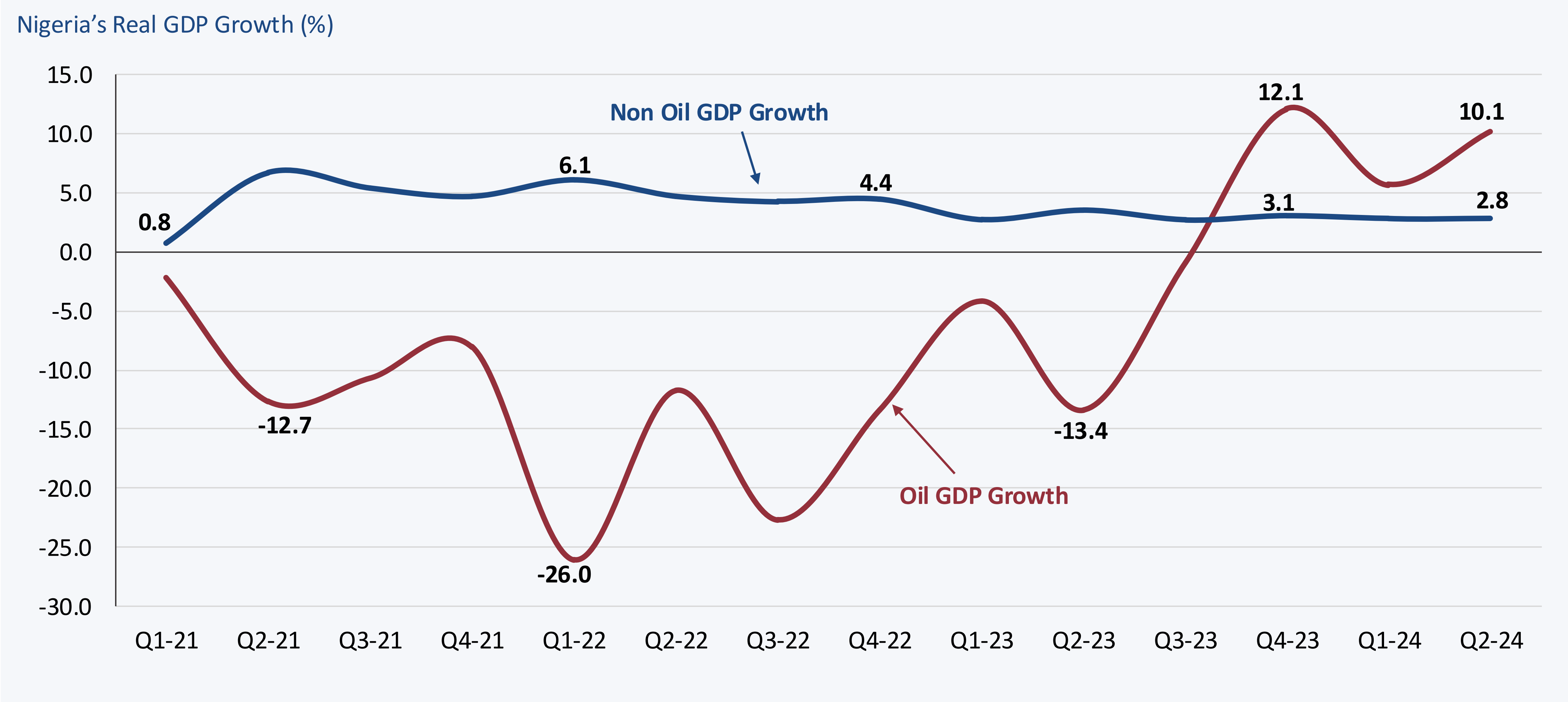
Nigeria's real GDP growth accelerated to 3.2% in Q2-2024



- In Q2-2024, Nigeria's real GDP grew by 3.19%, an improvement from 2.98% recorded in the previous quarter.
- For H1-2024, real GDP growth was 3.1% (H12023: 2.4%).
- Since the recession in 2020, Nigeria's real GDP growth has averaged 3.1%, far below the growth rates achieved in the 2000s and early 2010s.

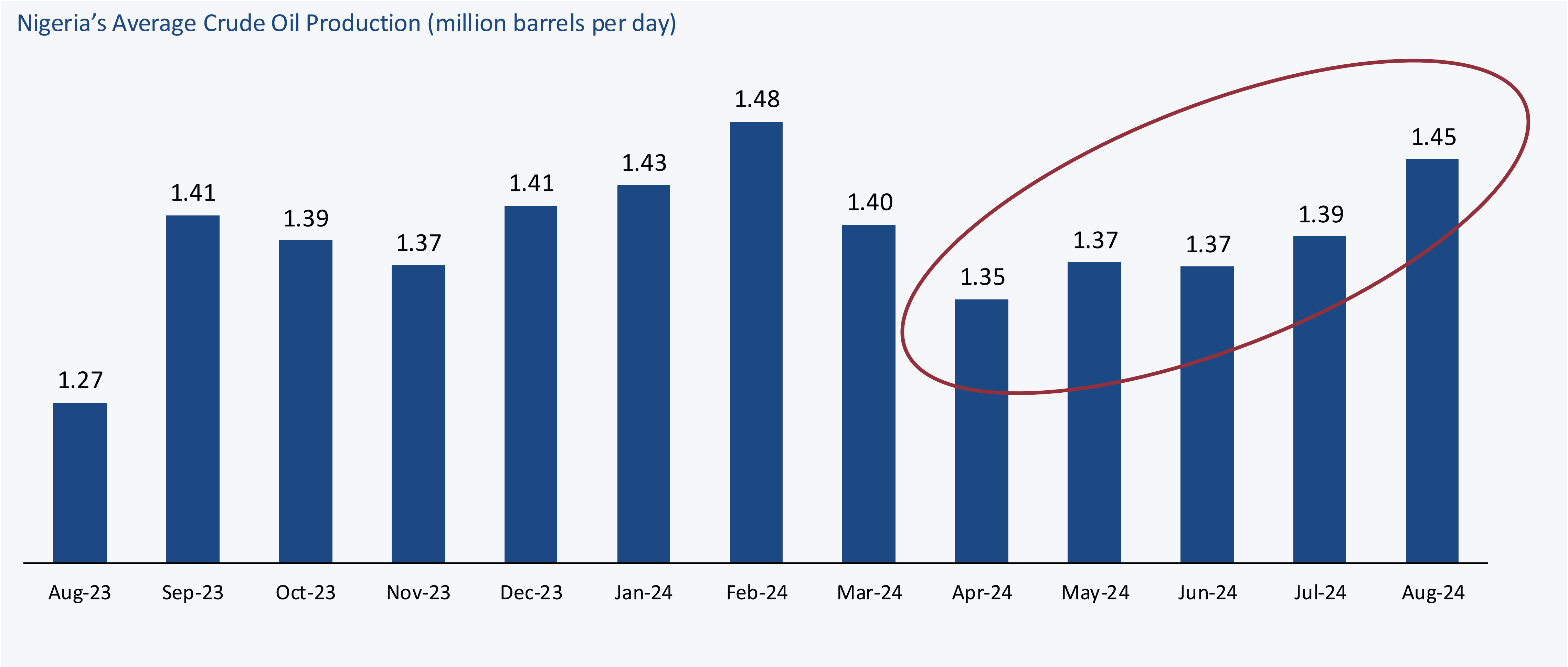
Source: FSDH Research, National Bureau of Statistics

The oil sector's return to positive growth in Q4 2023 has been a major factor in Nigeria's sustained GDP Growth in the last three quarters



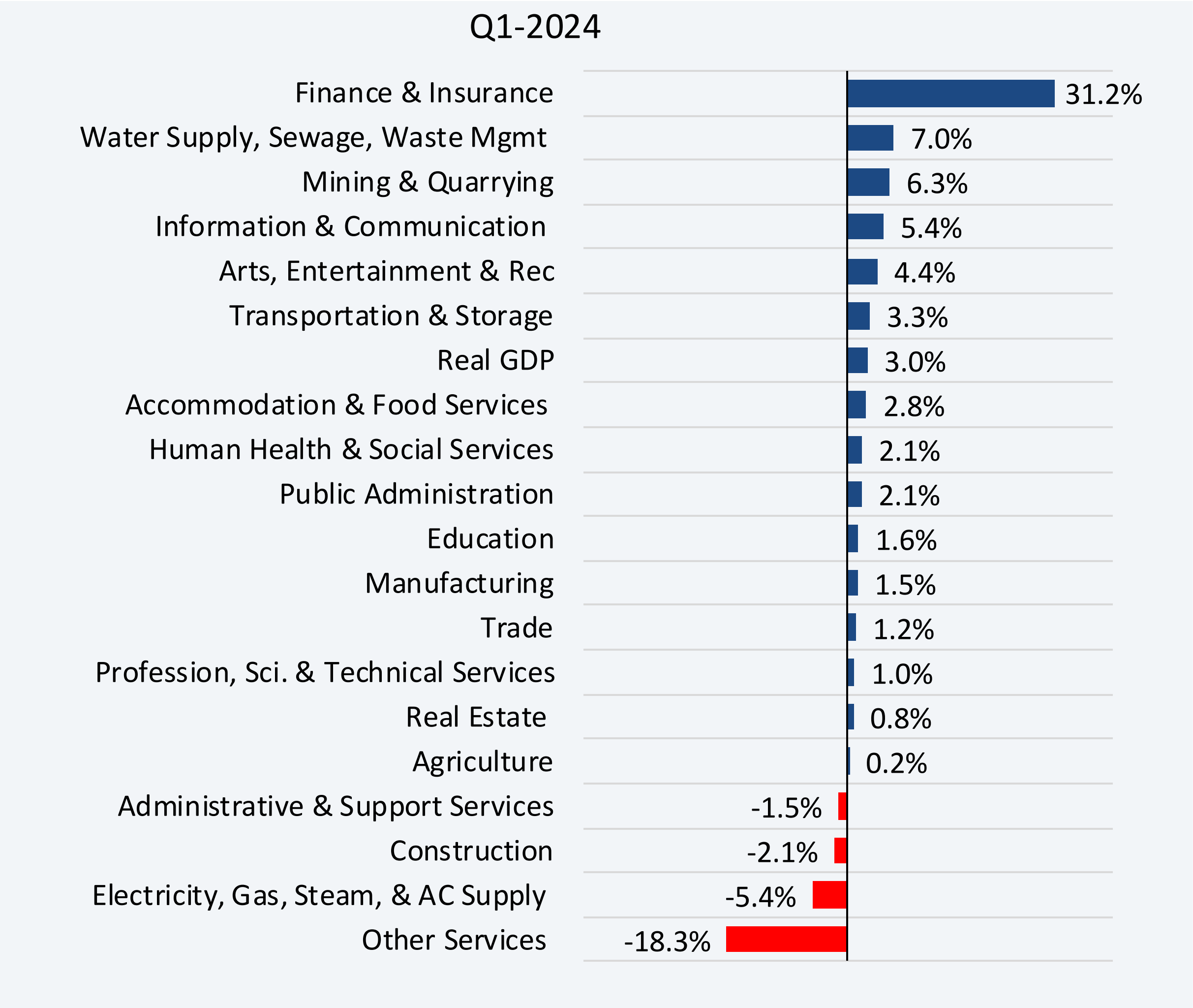
Source: FSDH Research, National Bureau of Statistics

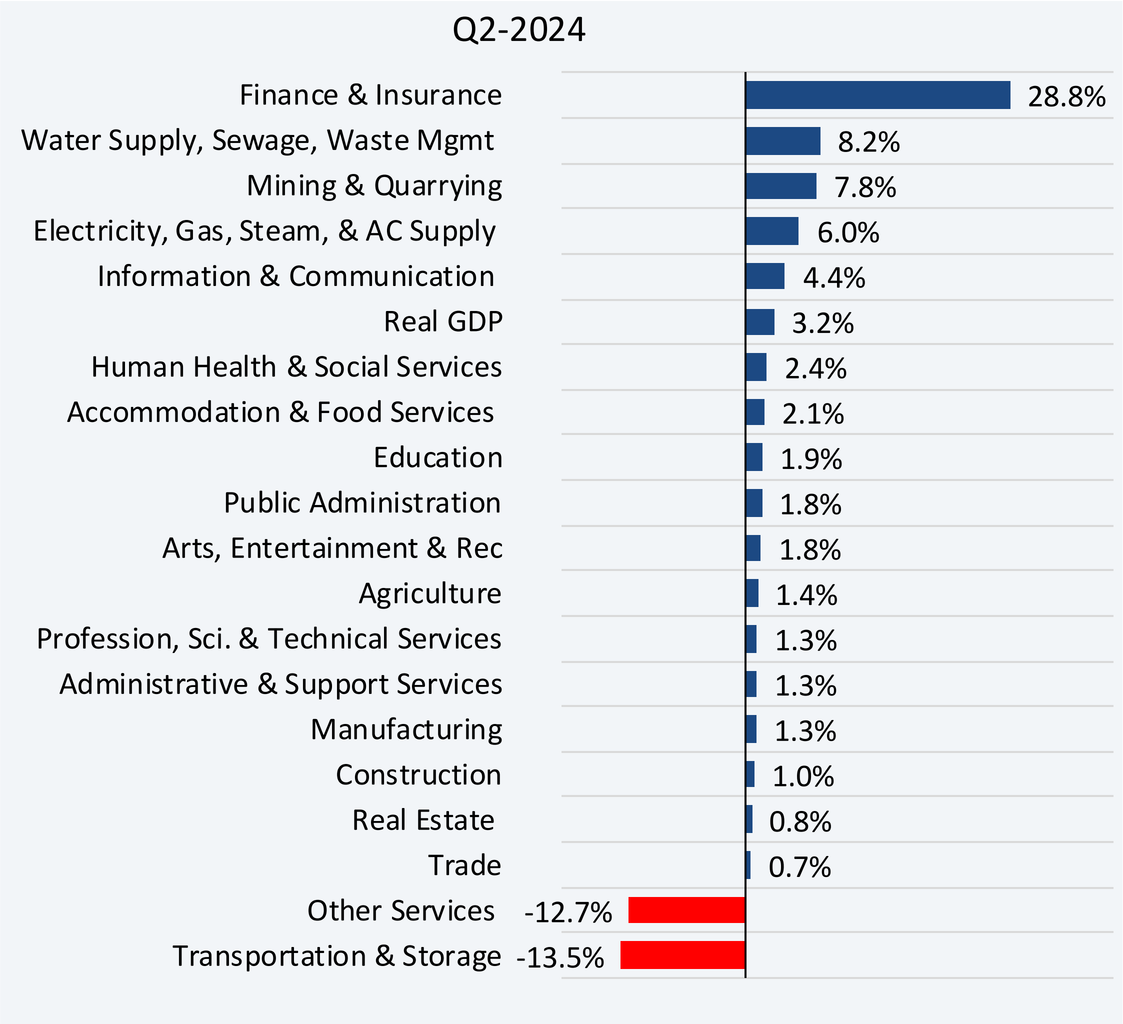
Oil production has been on a steady increase in Q2 2024 as the efforts to curtail oil theft continue



Data Source: OPEC

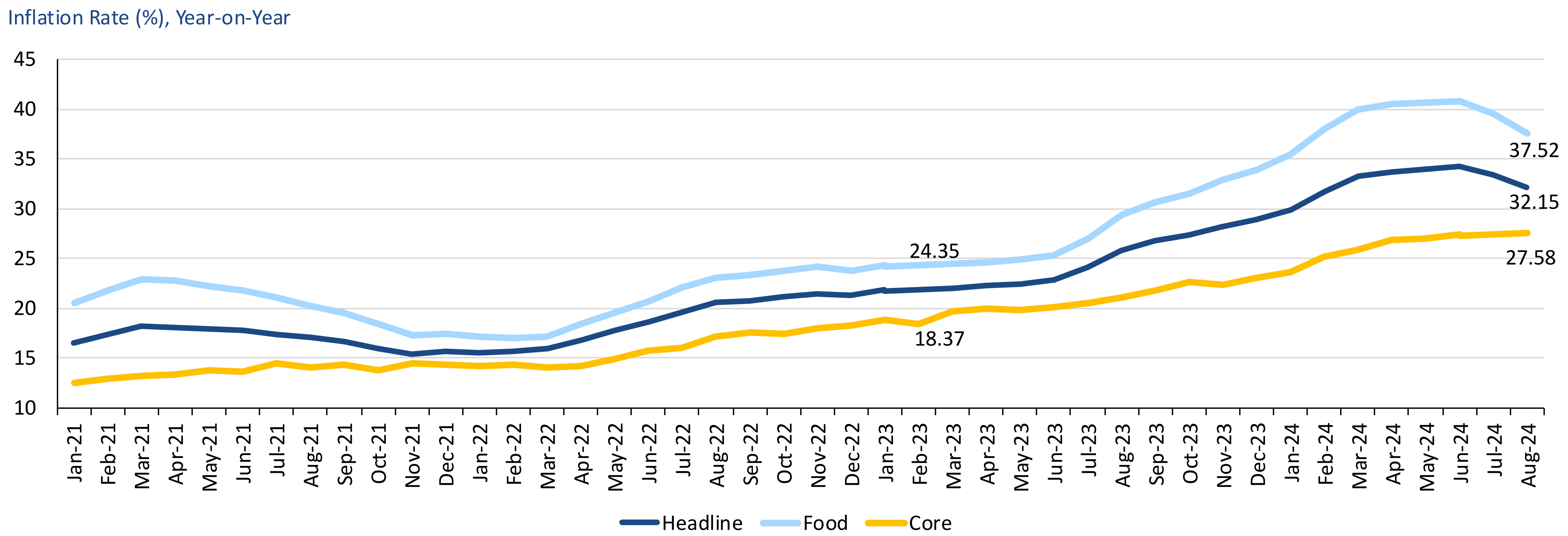
Finance and Oil & Gas were the major contributors to Nigeria's GDP growth in Q2-2024. Agriculture and Manufacturing grew by 1.4% and 1.3% respectively.





Source: FSDH Research, National Bureau of Statistics

Nigeria's Inflation rate fell for two consecutive months to 32.15% in August 2024



- Nigeria's inflation rate declined from a recent peak of 34.19% to 33.4% in July and 32.15% in August 2024. The decline in inflation rate was driven by easing food inflation due to improved agriculture yield during the harvest period. Nevertheless, the core inflation maintains an upward trend as the challenging business environment continues to strain productivity across sectors.

Source: FSDH Research, National Bureau of Statistics

Nigeria's Inflation Heat Map shows imported food & core inflation are yet to decline

	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24
All Items	28.9	29.9	31.7	33.2	33.7	34.0	34.2	33.4	32.2
All Items less Farm Produce	23.1	23.4	24.7	25.4	26.2	26.4	26.5	26.3	26.4
All Items less Farm Produce and Energy	23.1	23.6	25.1	25.9	26.8	27.0	27.4	27.5	27.6
Imported Food	24.9	26.3	29.8	32.9	34.0	34.8	36.4	36.9	38.3
Food	33.9	35.4	37.9	40.0	40.5	40.7	40.9	39.5	37.5
Food & Non Alcoholic Bev.	33.7	35.2	37.7	39.8	40.3	40.5	40.7	39.4	37.4
Alcoholic Beverage. Tobacco and Kola	16.6	17.9	19.3	20.5	22.0	23.3	24.1	25.2	26.2
Clothing and Footwear	16.8	16.8	16.8	16.8	16.5	16.6	16.4	17.4	18.1
Housing Water, Electricity. Gas and Other Fuel	24.0	24.7	26.0	27.6	28.8	29.6	30.3	29.4	28.1
Furnishings & Household Equipment Maintenance	16.4	16.5	17.0	17.2	17.7	17.7	17.8	18.5	19.0
Health	23.8	24.6	25.0	25.0	24.6	24.1	23.4	23.2	22.5
Transport	26.7	25.9	26.1	25.5	25.4	25.6	25.6	25.2	25.7
Communication	5.8	5.4	4.9	4.4	3.9	3.4	2.6	2.5	2.4
Recreation & Culture	8.9	8.6	9.4	9.8	9.8	9.5	9.1	9.3	9.0
Education	19.4	18.9	18.8	18.4	17.9	17.6	17.2	16.9	17.3
Restaurant & Hotels	24.3	24.2	25.1	27.1	27.8	28.6	29.7	29.9	29.3
Miscellaneous Goods & Services	21.1	20.8	21.2	21.1	20.9	20.9	20.9	21.5	21.6

Rising Inflation | Declining Inflation | Constant Inflation

Source: FSDH Research, National Bureau of Statistics

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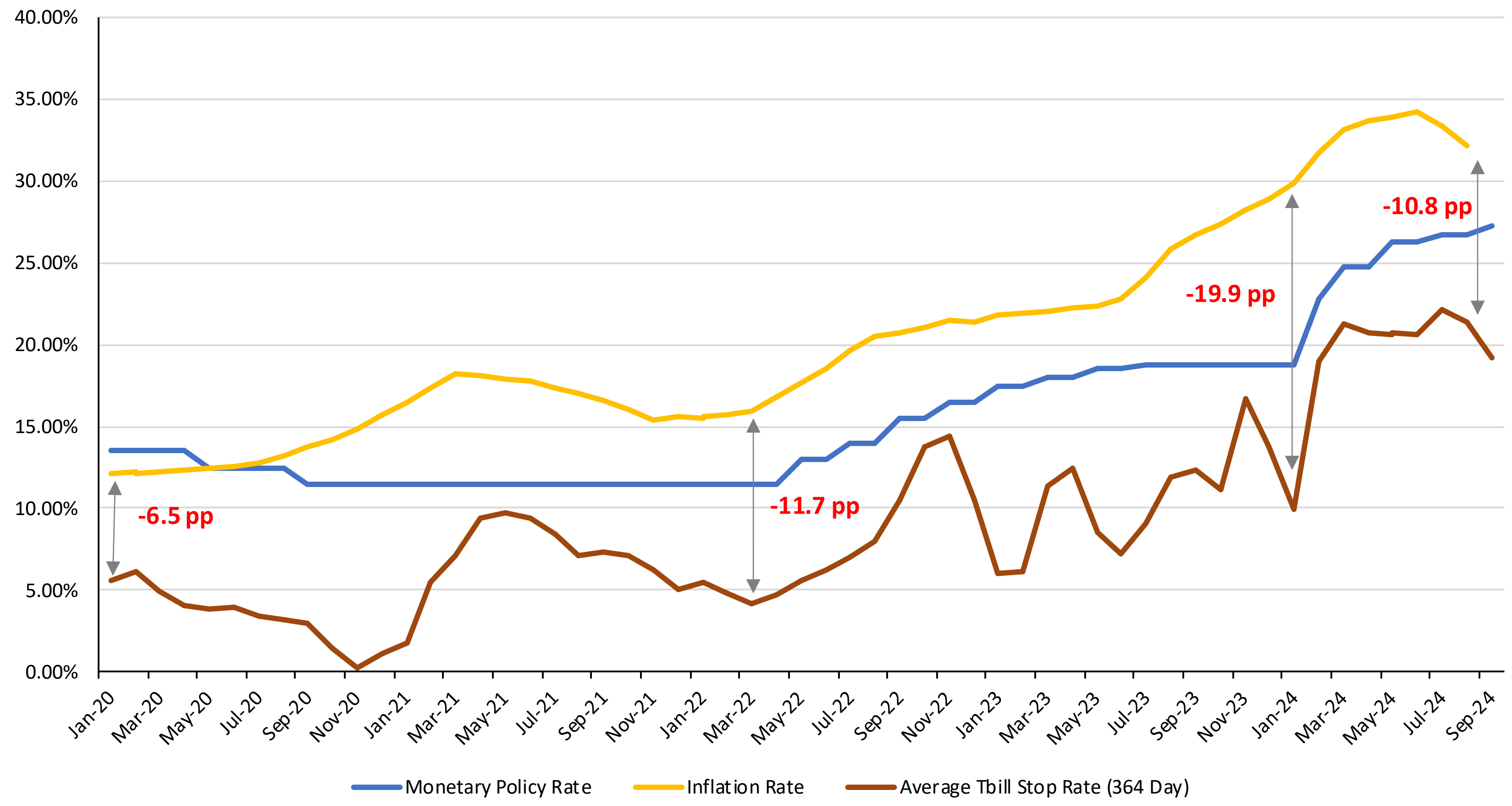
Real interest rates remain negative despite rising MPR and yields on FGN Securities

Real Interest Rate: Monetary Policy Rate (MPR), 364-Day Treasury Bill Average Stop Rate vs Inflation Rate



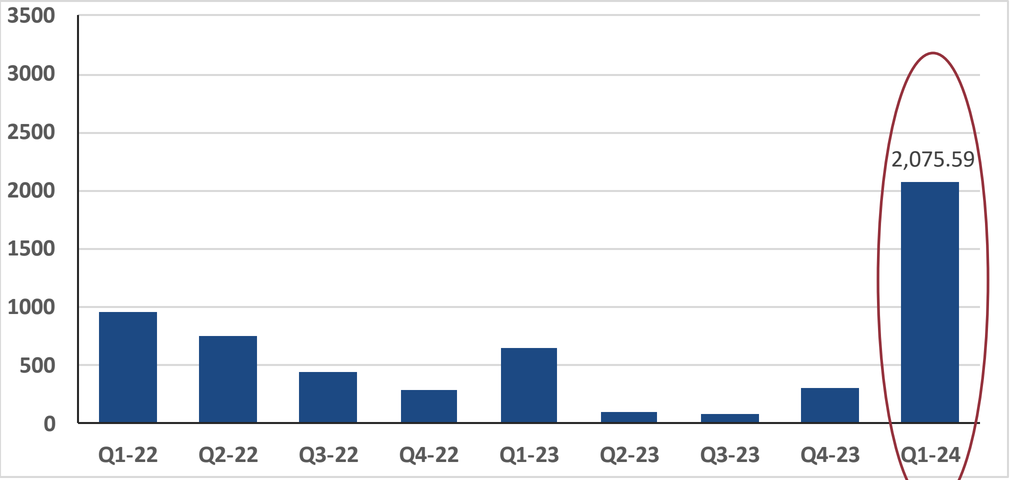
- The gap between inflation and return on investment has improved, narrowing from -19.9 percentage points in January 2024 to -10.8 percentage points in July 2024.
- Rates on fixed-income securities trended downwards in Q3 2024 following the increase in MPR.
- We expect the CBN MPC to adopt a cautious approach to further rate increases in upcoming meetings.
- In our view, Nigeria can only achieve positive real interest rates when inflation trends downwards significantly.

Source: FSDH Research, National Bureau of Statistics & Central Bank of Nigeria

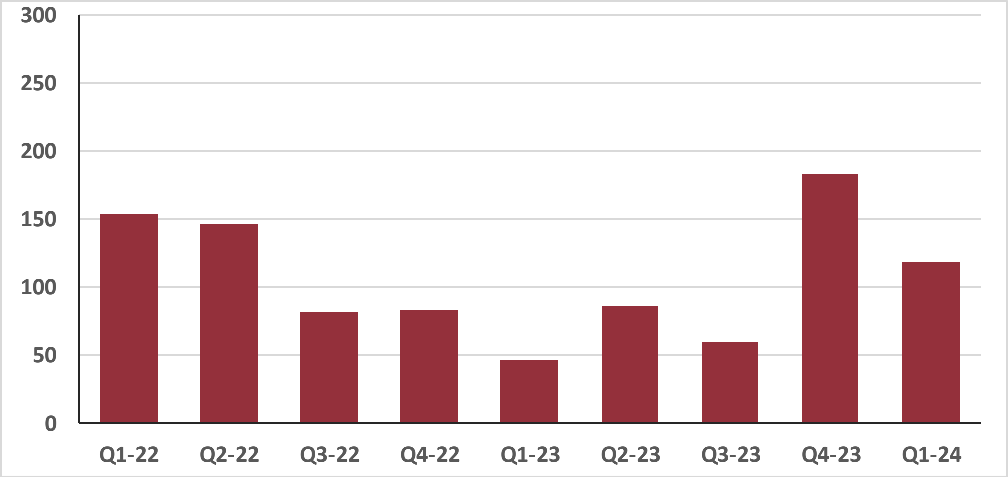
pp - percentage points

Elevated interest rates triggered increased capital inflows into Nigeria

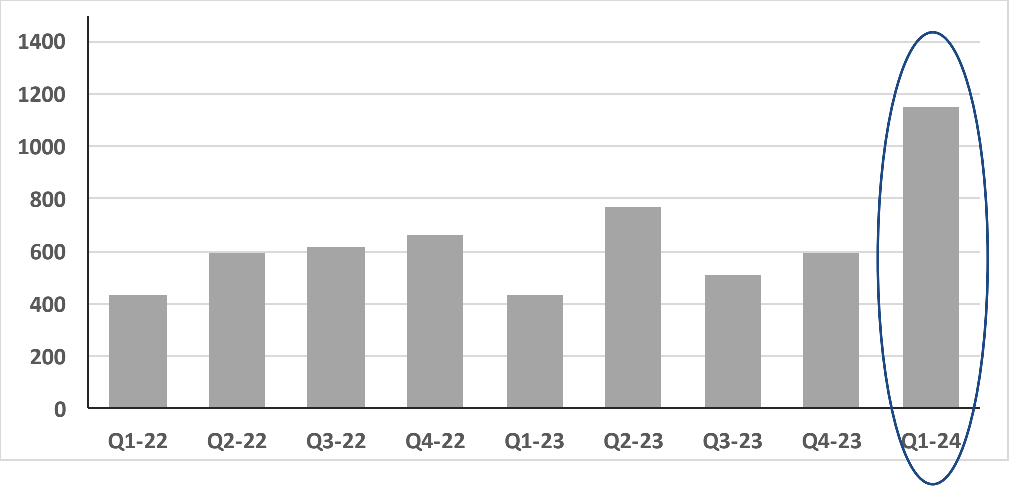
Foreign Portfolio Investment Inflow into Nigeria (US$ Million)



Foreign Direct Investment Inflow into Nigeria (US$ Million)



Other Investment Inflow into Nigeria (US$ Million)

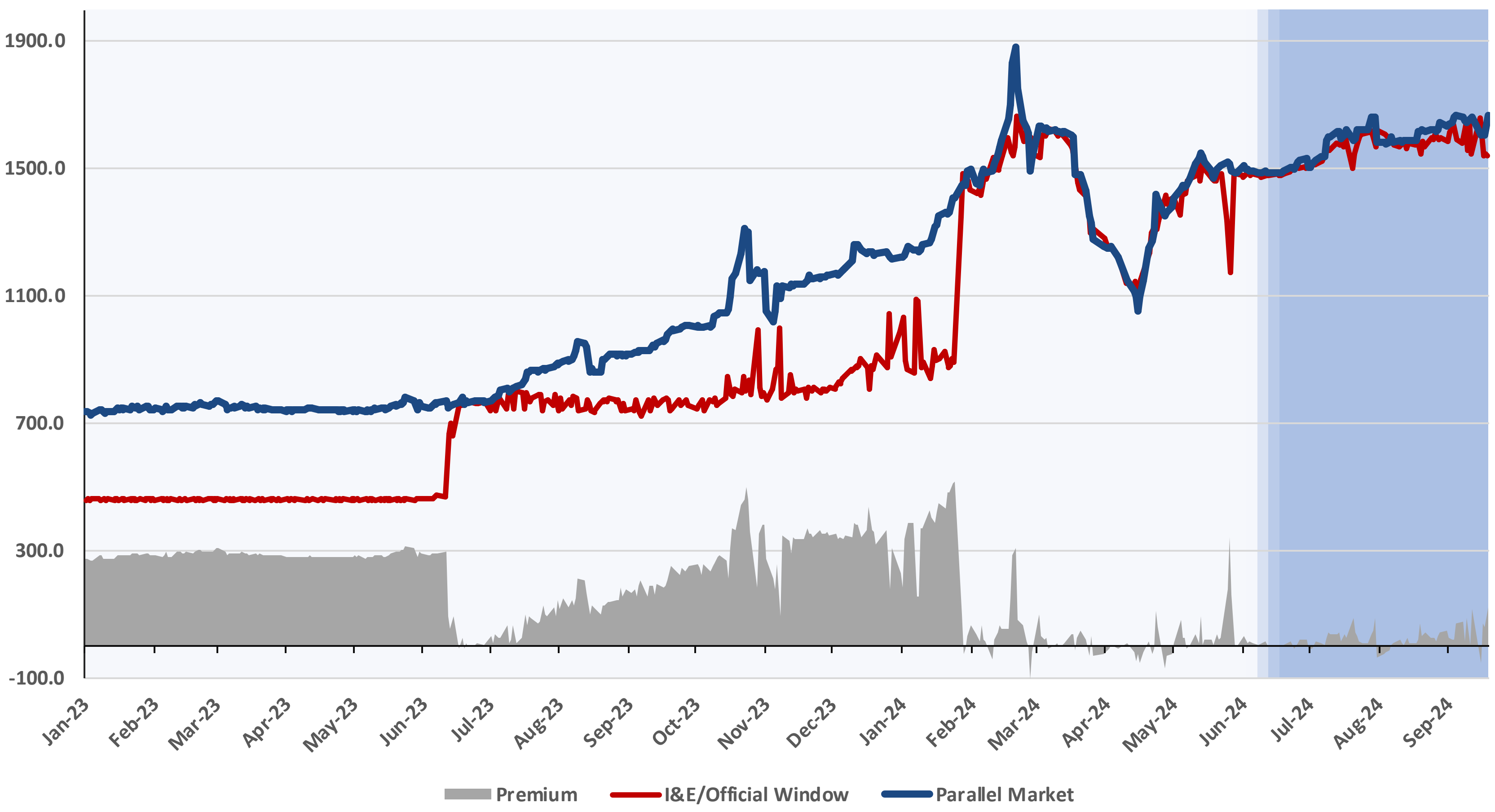


- Foreign investment inflows into Nigeria increased to US$3.4 billion in Q1 2024 (Q1 2023: US$1.13 billion).
- Compared to the previous quarter, foreign portfolio investments surged by 570% and other investments rose by 99%, driven by higher interest rates on government securities. However, foreign direct investment (FDI) declined by 35%, reflecting challenges in the business environment.
- We expect foreign portfolio and other investments to continue on an upward trend through Q4 2024.

Source: FSDH Research, National Bureau of Statistics

The Naira depreciates further in Q3 2024

Exchange Rate (Naira per US$)



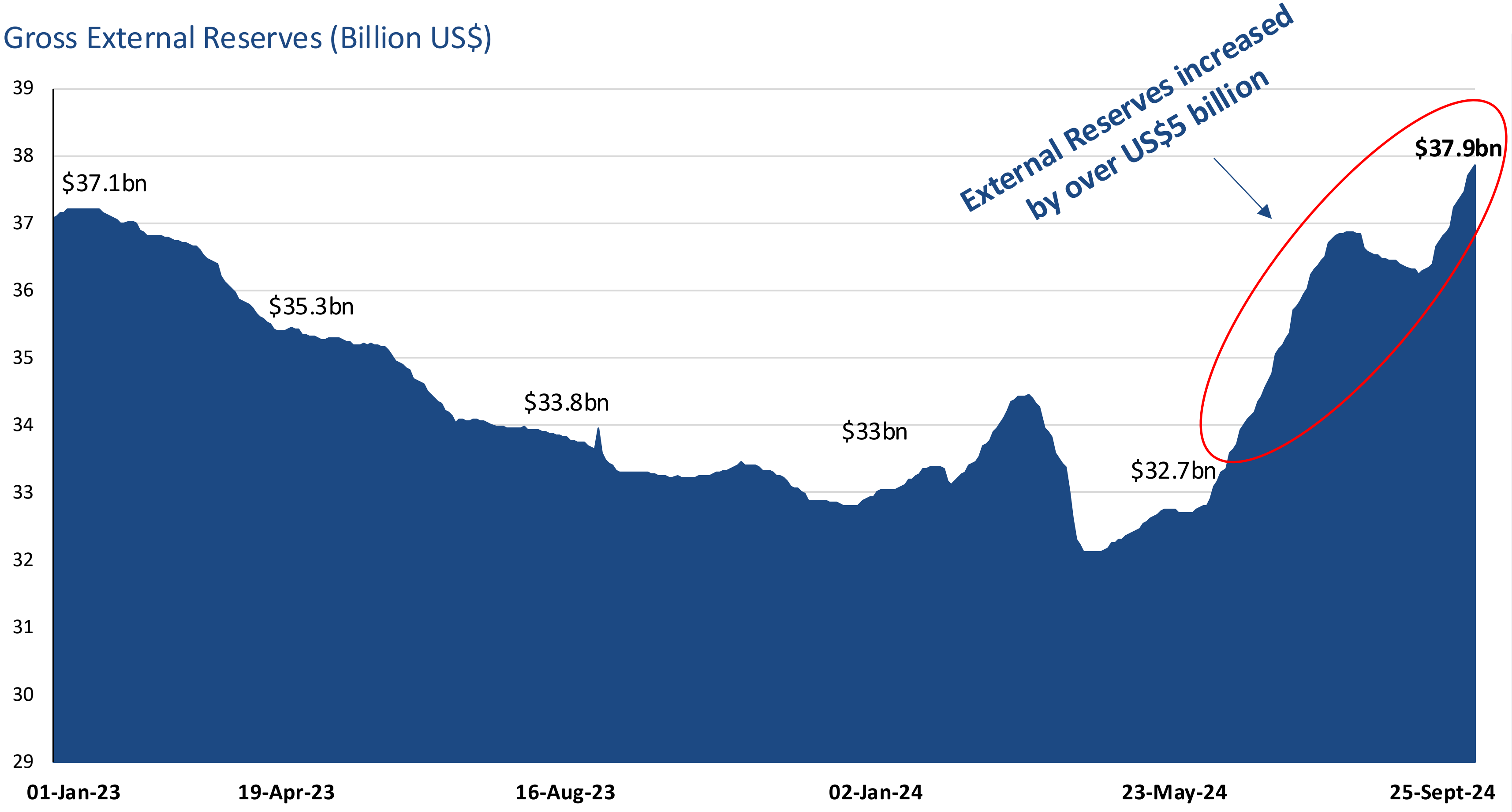
- Year to date*, Nigeria's exchange rate has depreciated by 69.9%, moving from N907.11/US$ at the beginning of the year to N1541.52/US$.
- In the current quarter, the Naira has further depreciated by 2.4%, dropping from N1505.30/US$ to N1541.52/US$.
- The depreciation has been driven by rising demand pressures, despite an increase in foreign reserves.

Data Source: FMDQ, (Parallel Market Rate updated from daily reports from Nairametrics)

**End period for the data is September 24, 2024*

External Reserves improved to US$37.9bn in September

Gross External Reserves (Billion US$)



- Nigeria's foreign reserves have increased significantly over the past few quarters due to an improved trade position and foreign capital inflows.

- Year to date (Sept 25), foreign reserves have risen by 14.7%, reaching US$37.9 billion, up from US$33 billion at the beginning of the year.

- In Q3 2024, reserves grew by 10.3%, from US$34.3 billion at the start of the quarter.

Source: FSDH Research, Central Bank of Nigeria (CBN)

Analyst Views on Growth and Inflation

- **Prolonged fuel scarcity and high fuel prices will impact economic growth in the last quarter of the year**. These challenges are expected to significantly impact the real sector's performance as many businesses continue to grapple with high operating costs and a tough business environment. These factors, along with a pressured exchange rate, would suppress the growth outcomes of many sectors and the overall economy in the last quarter of 2024.

- **On inflation, the surge in fuel prices to over N800 per litre is expected to elevate the prices of goods and services in Q4 2024.** Without adequate intervention from the fiscal authorities to address doing business constraints, provide concessions to the Dangote refinery and negotiate for a fair price of fuel, the economy is likely to experience another round of heightened inflation in the short term.

Analyst Views on Foreign Exchange

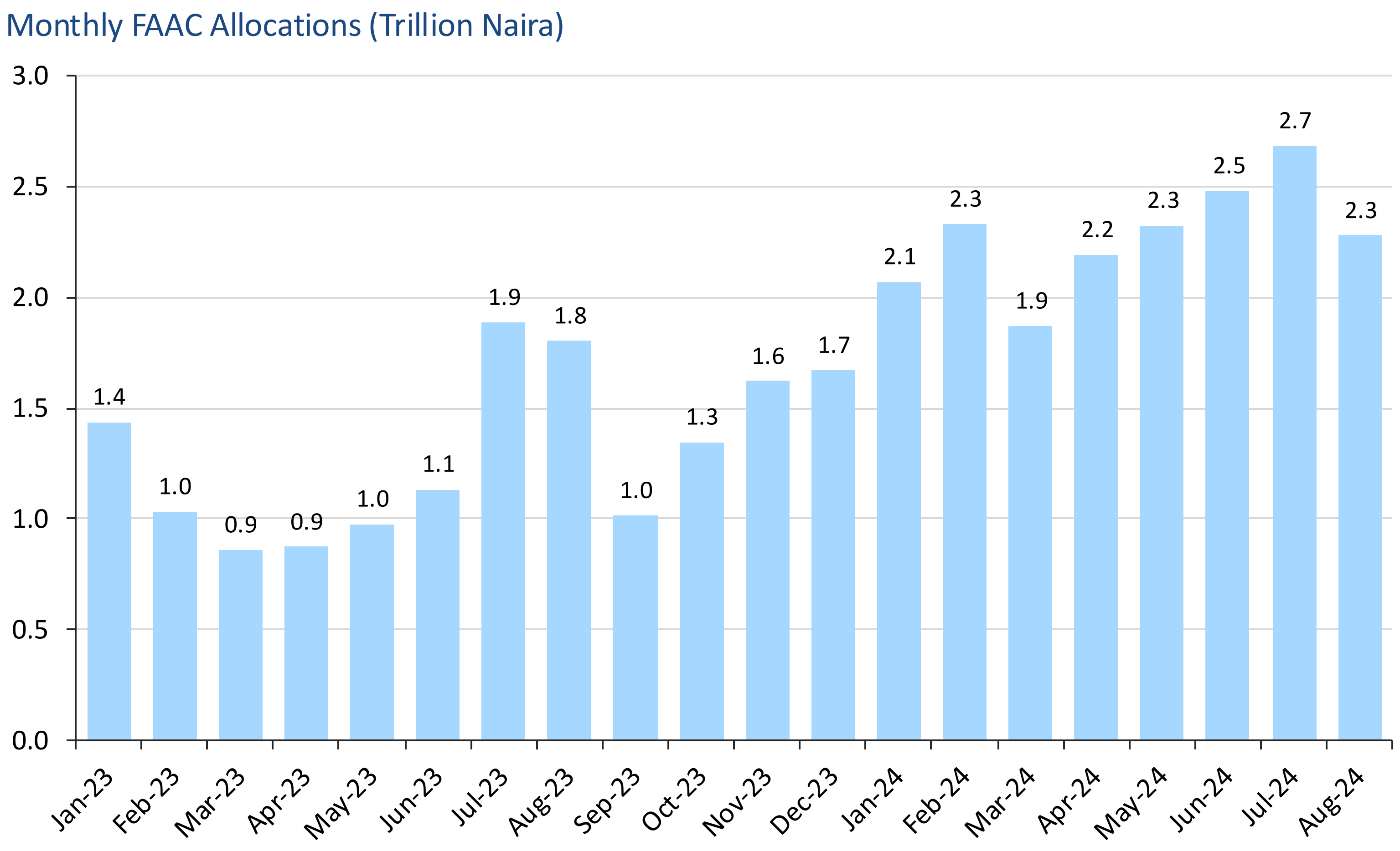
- **Forex inflows improved, but FX pressures persist.** There has been an observable improvement in the sources of Forex inflows over the past quarters, yet FX pressures remain. The economy recorded a trade surplus of US$8.9 billion in H1 2024, a 45.2% increase compared to US$6.1 billion in H2 2023. Additionally, the high-interest-rate environment has boosted portfolio investment inflows into Nigeria. As a result, Nigeria's external reserves have been rising, although this has come at the expense of a depreciating Naira. The CBN's current focus on reserve accretion is aimed at boosting confidence in the FX market, but this posture is likely to shift in Q4 2024.

- **Exchange Rate Outlook for Q4 2024:** Looking ahead to Q4 2024, we expect the exchange rate to close the year around N1,560/US$. With the festive season approaching and added pressure in the FX market, we anticipate an increase in Forex inflows, driven by hikes in policy rates and increased FX interventions by the CBN, aimed at maintaining a stable exchange rate.

- **Dangote Refinery set to ease Forex pressures.** The commencement of operations at the Dangote Refinery will significantly reduce pressure on the Forex market. Petroleum products account for 30-40% of Nigeria's import bills, and at full capacity, the Dangote Refinery will substantially lower these bills, thereby easing pressure on the Naira and stabilising the exchange rate in the near term. Additionally, the Naira for Crude Initiative, which kicks off on October 1st, 2024, is expected to further mitigate Forex risks. Thus, we maintain a positive outlook for the Naira in Q4 2024.

Fiscal and Monetary Policy Update

FAAC nearly doubled in 8M-2024, due to exchange rate and subsidy gains

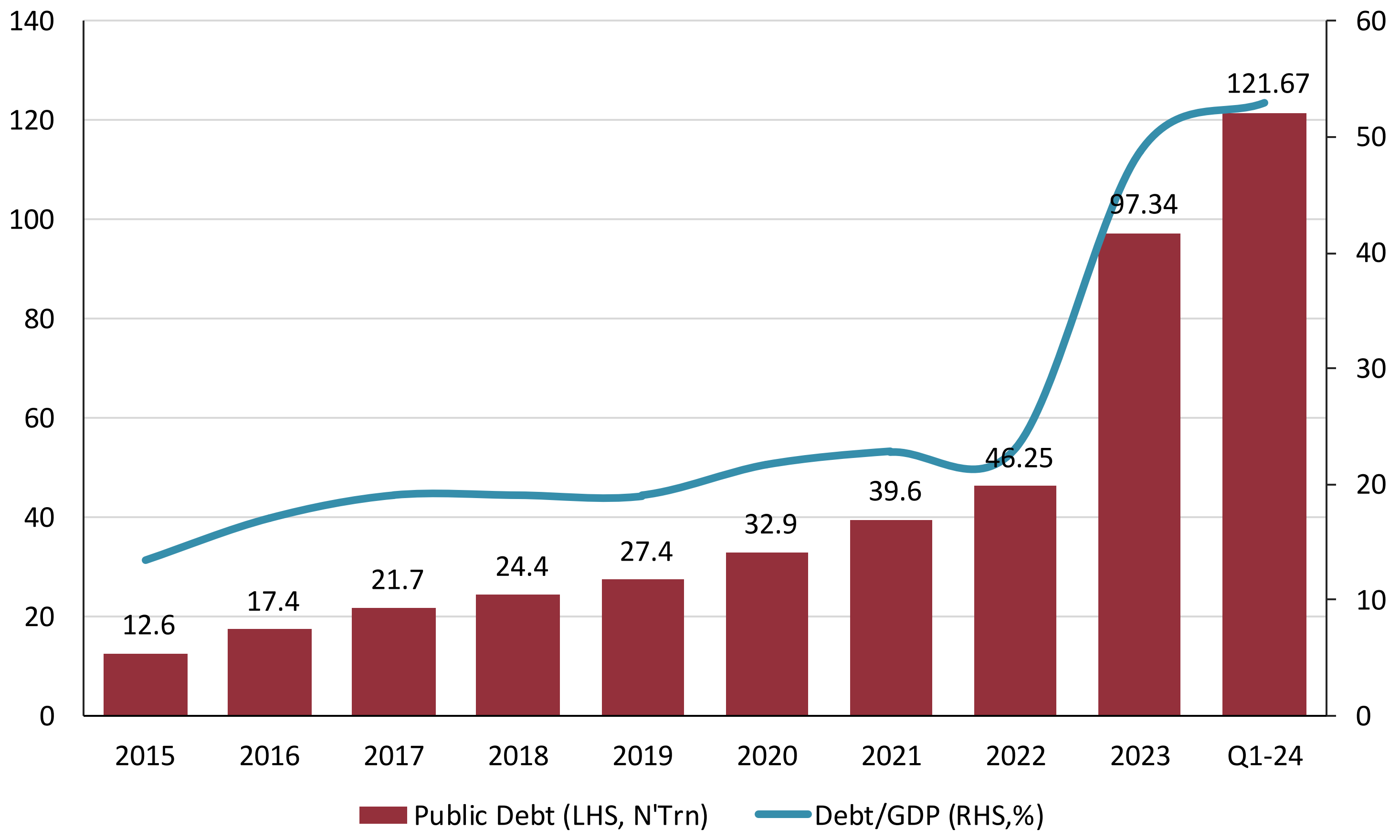


- Following the removal of the fuel subsidy and exchange rate devaluation, Nigeria's FAAC allocation has expanded significantly, reaching N18.23 trillion over the past eight months. This marks an 82.2% increase compared to N10.00 trillion in the corresponding period of 2023.
- However, when adjusted for inflation (using January 2023 as the base), the value of the eight-month FAAC stands at N12.79 trillion, representing a 38.1% increase from N9.26 trillion in 8M-2023.
- Further exchange rate depreciation is expected to improve FAAC allocations in the coming months.

Data Source: National Bureau of Statistics

Public debt keeps rising despite improved revenue profile

Nigeria's total Public Debt Stock (Trillion Naira) and Debt to GDP (%)

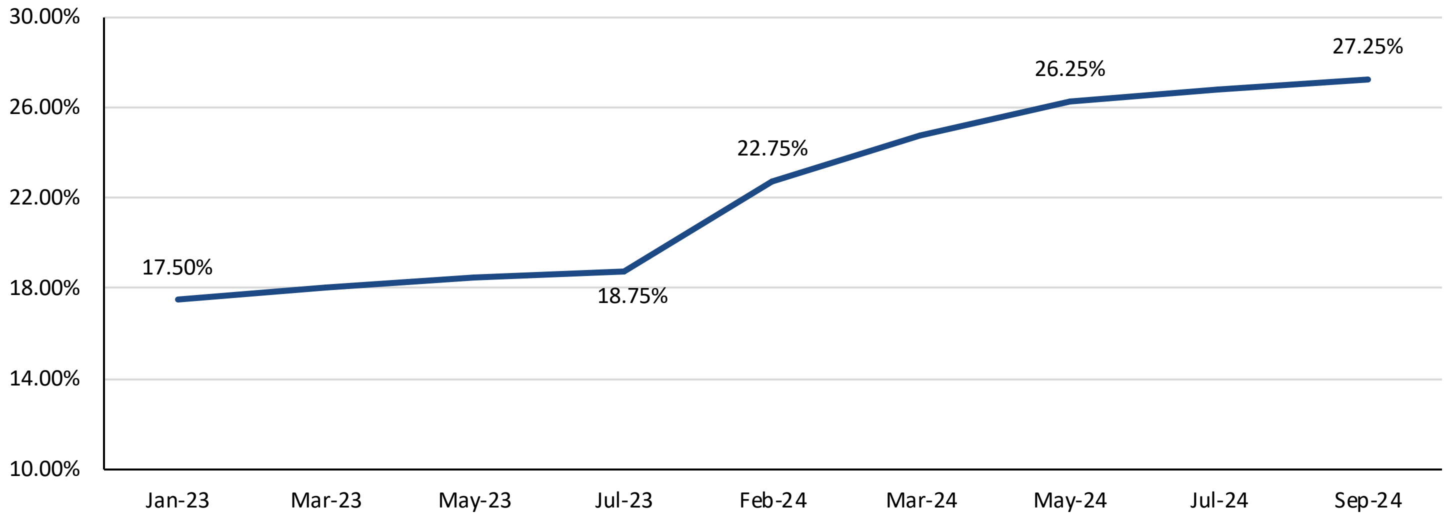


- Nigeria's public debt stock saw an unprecedented increase in Q1 2024, expanding by N24.33 trillion (a 25% rise) to N121.67 trillion from N97.34 trillion in Q4 2023.
- According to the Debt Management Office (DMO), this sharp rise is attributed to the exchange rate devaluation and interest rate hikes, which inflated the Naira value of public debt instruments.
- The debt burden was further amplified as debt service costs, which surged to N2.48 trillion in Q1 2024, compared with N1.24 trillion during the same period in 2023.

Data Source: Debt Management Office, CBN, NBS

CBN MPC hiked rates further in September 2024 as inflation rate declined

Nigeria's Monetary Policy Rate (%)



Monetary Policy Committee Decision (%)

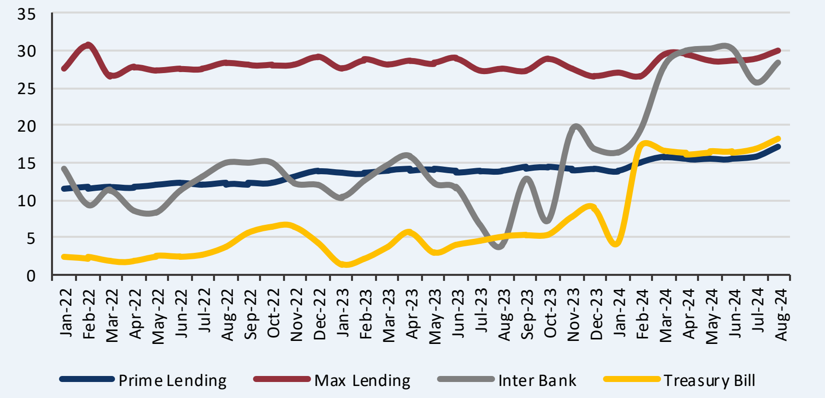
	May 2024	July 2024	September 2024
Monetary Policy Rate	26.25	26.75	27.25
Asymmetric Corridor	+100/-300	+500/-100	+500/-100
Cash Reserve Ratio (DMBs)	45.00	45.00	50.00
Cash Reserve Ratio (Merchant Banks)	14.00	14.00	16.00
Liquidity Ratio	30.00	30.00	30.00

Data Source: CBN

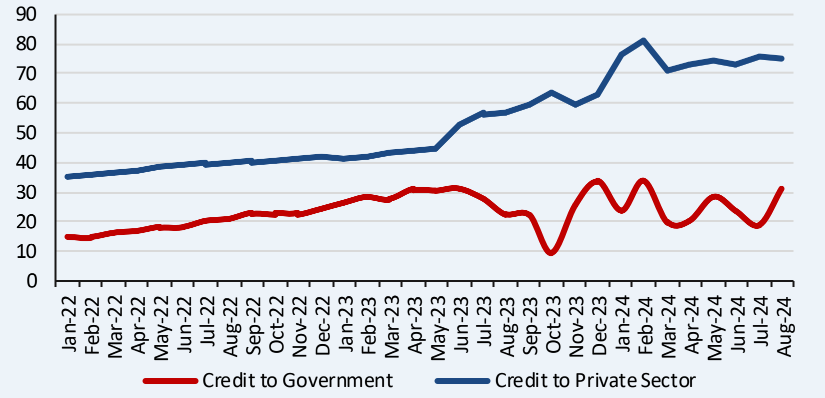
- The Central Bank of Nigeria's Monetary Policy Committee (MPC) raised the Monetary Policy Rate (MPR) for the fifth consecutive time in 2024.
- In September, the Committee increased the MPR by 50 basis points to 27.25%, maintaining its hawkish stance. The Cash Reserve Ratio was adjusted upward to 50% for Commercial Banks and 16% for Merchant Banks. The Asymmetric Corridor around the MPR was retained at +500/-100 basis points.
- The decision to raise the MPR was driven by the persistent rise in core inflation, mainly fuelled by energy prices and the continued growth of money supply.
- We expect the hawkish stance to persist in the short term, given the anticipated rise in the inflation rate in the coming months.

Monetary Indicators: Credit to the government surged by 63.9% (MoM) to N31.2 trillion in August 2024

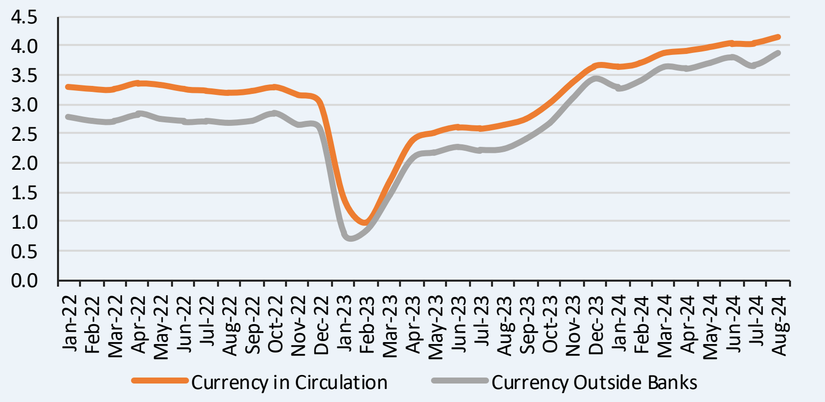
Lending Rates and Tbills Rate (%)



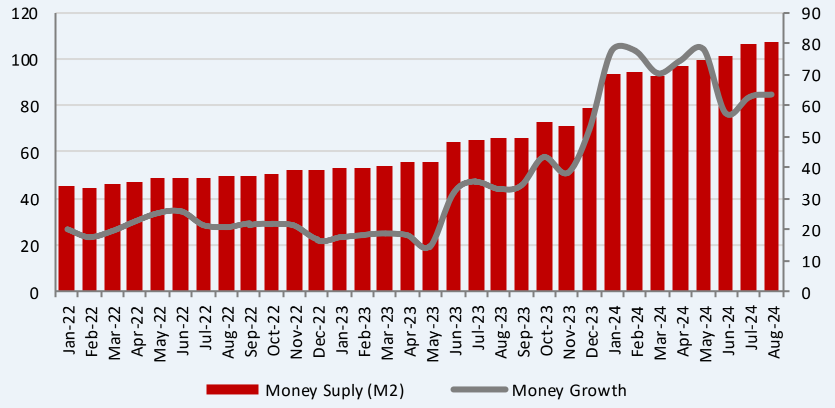
Credit to the Government & Private Sector



Currency in Circulation (N'Trillion)



Currency vs Money Supply (N'Trillion)



Data Source: CBN, NBS

Data Source: CBN, NBS

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Key Monetary Aggregates

	2021	2022	2023	Jan-24	Mar-24	Jun-24	Aug-24
Currency/M2	7.5%	5.8%	4.6%	3.9%	4.2%	4.0%	3.9%
Currency/GDP	1.9%	1.5%	1.6%	1.6%	1.7%	1.8%	1.8%
M2/GDP	25.6%	26.0%	34.3%	40.8%	40.2%	44.1%	46.6%
CPS/GDP	18.7%	19.2%	27.2%	33.3%	31.0%	31.8%	32.5%
Stock Market Capitalization/GDP	25%	14%	18%	24.9%	25.7%	24.6%	24.6%

Data Source: CBN, NGX, NBS

Analyst Views and Outlook on Monetary and Fiscal Policy

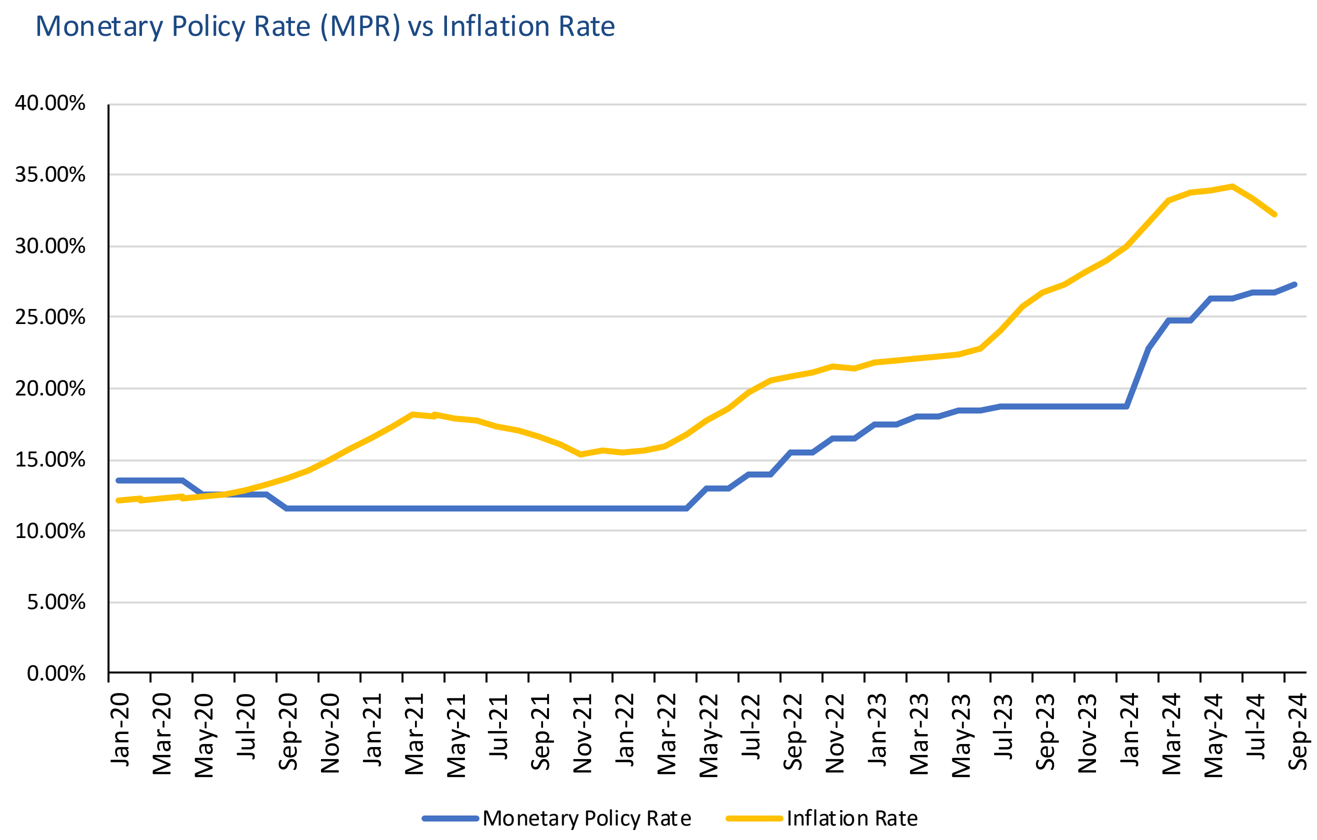
- **Interest rate hikes have yielded positive benefits in attracting investment inflows into Nigeria.** The interest rate hikes implemented by the Central Bank of Nigeria (CBN) have positively impacted investment inflows into Nigeria. Since February 2024, the CBN has maintained an aggressive monetary tightening stance aimed at inflation targeting, leading to increases in the Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR) for Deposit Money Banks (DMBs) and Merchant Banks, as well as yields on fixed-income securities.

- In addition to the tightening, FX reforms - including the clearing of FX backlogs and the sanitisation of BDCs and IMTOs - have contributed to increased investment inflows. In Q1 2024, Nigeria attracted foreign investment worth US$3.38 billion, close to the US$3.9 billion attracted for the full year 2023. Moreover, exchange rate volatility has decreased relative to H2 2023, and external reserves have grown to over US$37 billion.

Analyst Views and Outlook on Monetary and Fiscal Policy

Although the inflation rate declined for two consecutive months to 32.2% in August 2024, further analysis shows that the drop was driven by a decline in food inflation, thanks to improved agricultural yields during the harvest season. However, core inflation continues to rise.

The effectiveness of tight monetary policy in reducing inflation remains uncertain, particularly due to the influence of structural challenges such as inadequate infrastructure, high fuel costs, poor power supply, and logistics bottlenecks. It appears the tight monetary stance is having a *more immediate effect* on exchange rate and external reserves than on controlling inflation in Nigeria.



Data Source: CBN, NBS

Analyst Views and Outlook on Monetary and Fiscal Policy

- **But monetary tightening is not without costs.** While monetary tightening has achieved some benefits, it is not without significant costs. The rising cost of capital for businesses, coupled with a higher Cash Reserve Ratio (CRR) of 50%, is expected to further constrain credit growth. In an economy where limited access to finance is often cited as a major challenge, this tightening could stifle economic growth as businesses may struggle to access much-needed capital.

- **Tightening to persist amid inflationary pressures.** Monetary Policy tightening is expected to continue, driven by the recent spike in energy prices, which is expected to keep inflation rate elevated. Given its inflation-anchoring strategy, the MPC is likely to raise the MPR further, though at a more gradual pace, as evidenced in recent meetings.

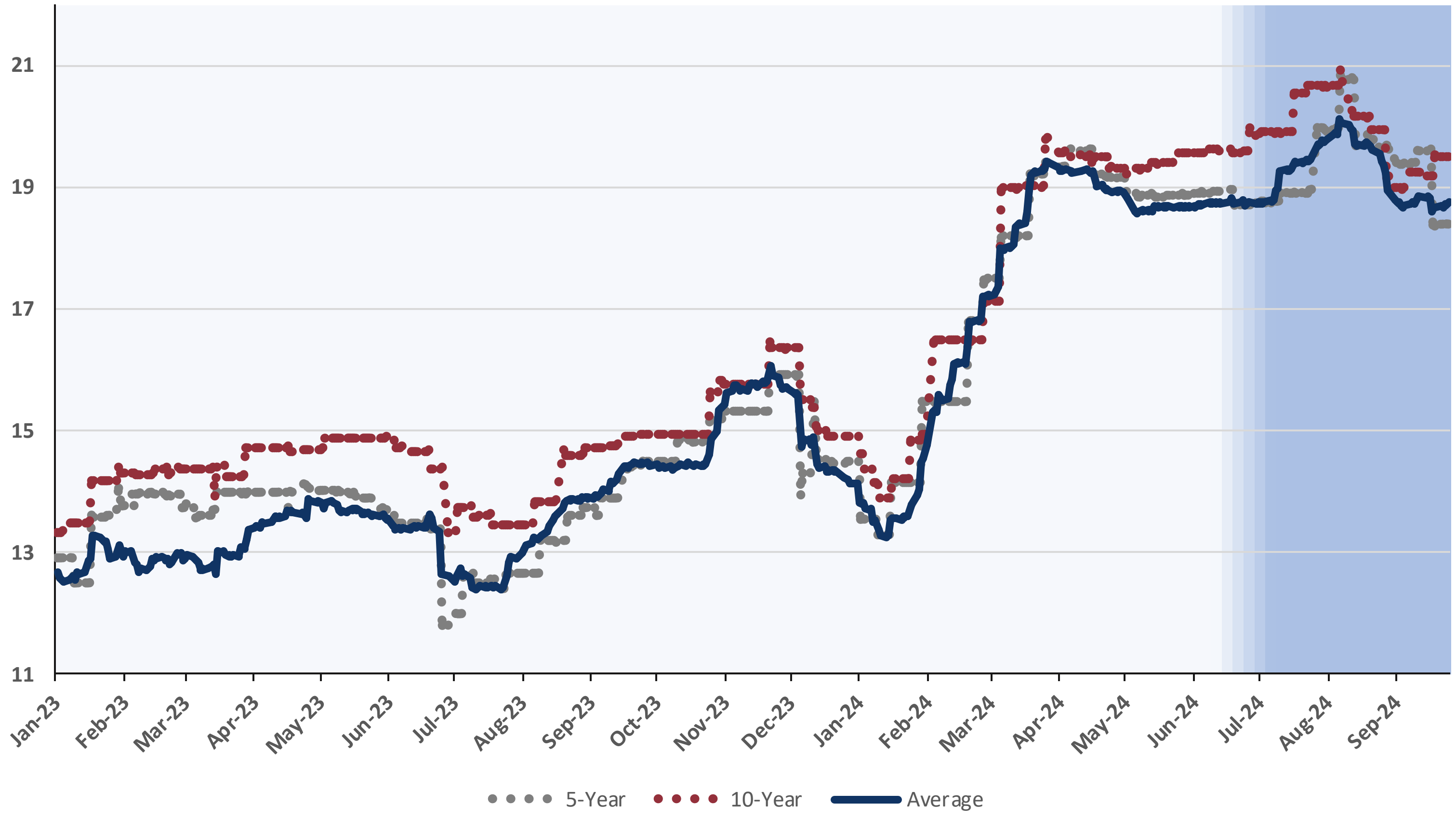
- **Expansionary fiscal policy amid growing debt.** On the fiscal front, the outlook remains expansionary, following the removal of fuel subsidies and exchange rate depreciation. Although government revenues are improving, public debt continues to rise due to increased expenditures. High interest rates are also expected to elevate debt servicing costs, reducing the government's ability to allocate funds to productive sectors of the economy. This poses a significant challenge for fiscal authorities. Moving forward, the government needs to review its budget and eliminate unnecessary expenditures to ensure efficient and effective delivery of public services. Addressing these fiscal challenges will be crucial for stabilising the economy and fostering growth in the short to medium term.

SECTION 04

Financial Market Performance

Bond yields stabilised in Q3-2024 as demand pressures return to the market

Trend of FGN Bond Yields (%)

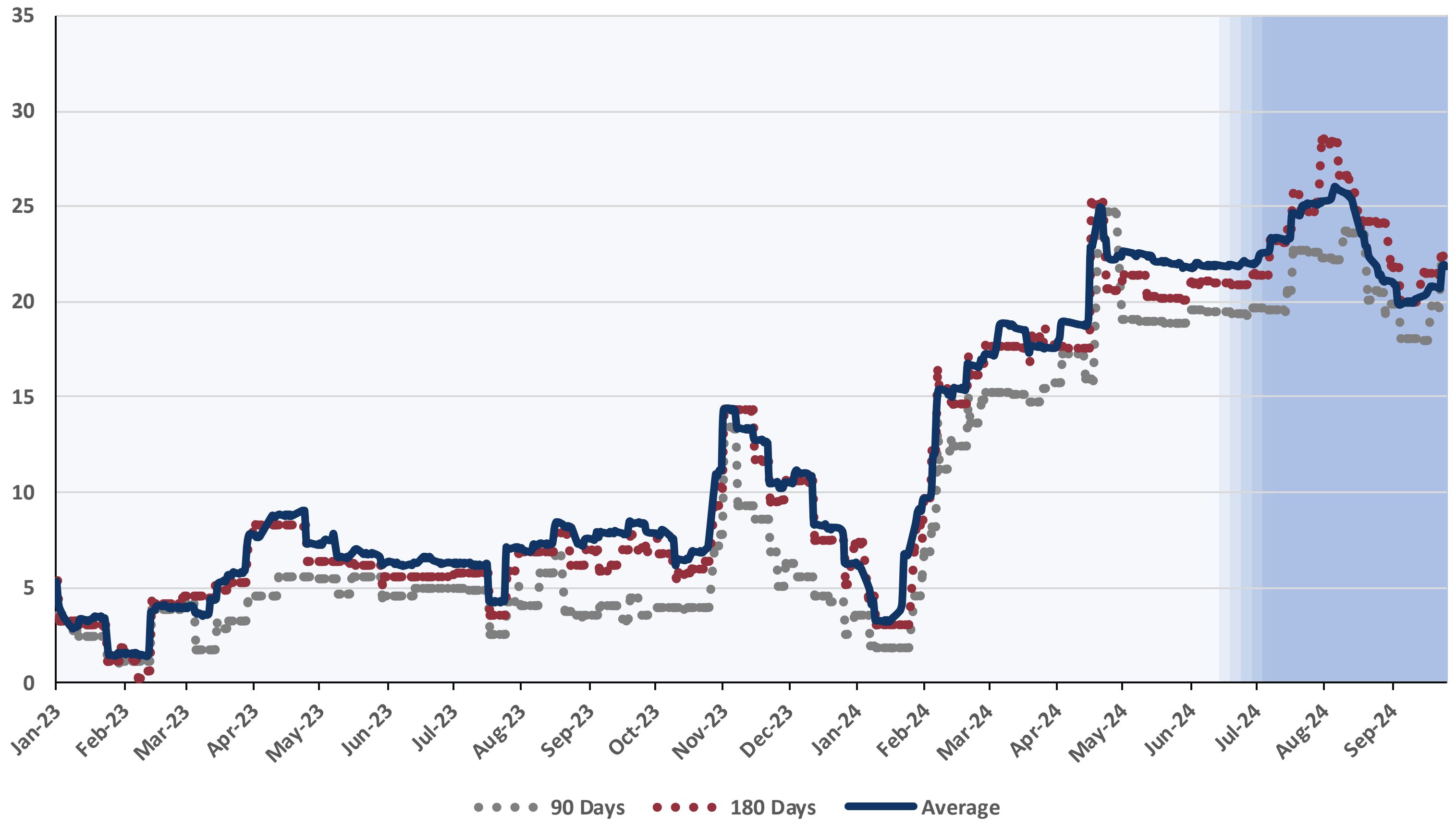


- The hike in rates and yields in Q3 2024 increased investor interest in the fixed-income market, putting downward pressure on FGN Bond yields during the quarter.
- The average FGN Bond yield peaked at 20.1% in mid-August, but due to demand pressures, it fell to 18.7% as of 27 September 2024.
- This represents a 0.1 percentage point decline from the 18.8% yield at the start of the quarter.
- With further rate increases by the CBN, FGN bond yields are likely to rise in the coming quarter.

Data Source: FMDQ; Investing.com *Note: End period for the data is September 27, 2024*

Similarly, NT-Bill yield reclines on demand pressures in the market

Trend of NT Bill Yields (%)



- Rising policy rates in Q3 2024 drove yields higher in the treasury bill (NT-Bill) market.
- Increased investor interest in the NT-Bill market exerted downward pressure on yields.
- The average NT-Bill yield peaked at 26.0% in mid-August but fell to 21.9% as of 27 September 2024.
- This represents a 0.2 percentage point decline from the 22.1% yield at the start of the quarter.

Data Source: FMDQ; Investing.com   *Note: End period for the data is September 27, 2024*

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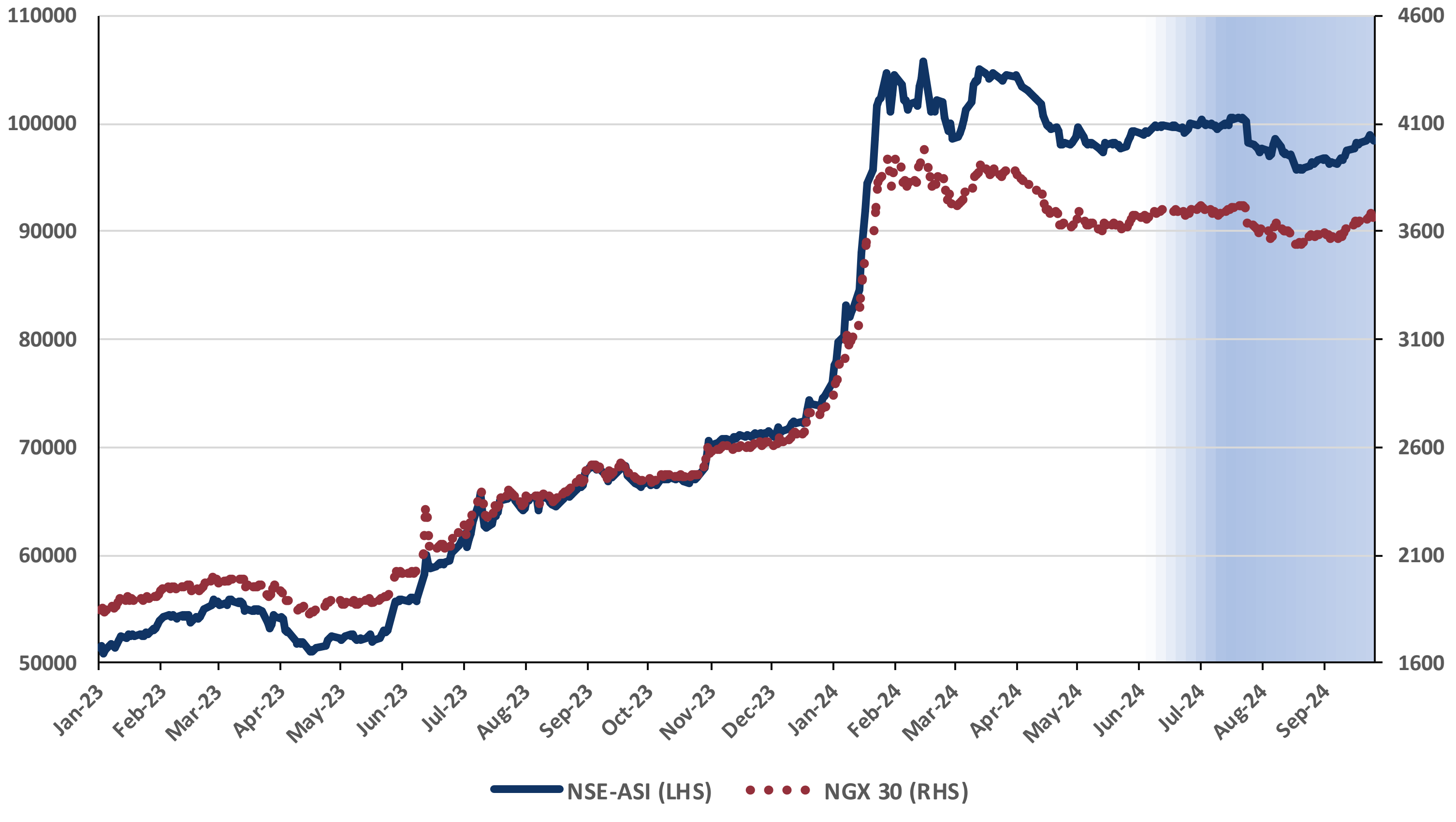
The equity market recorded a loss of 1.6% in Q3-2024 in response to elevated bond yields

NGSE - ASI vs NSE 30 (Index Points)



Equity Market Performance

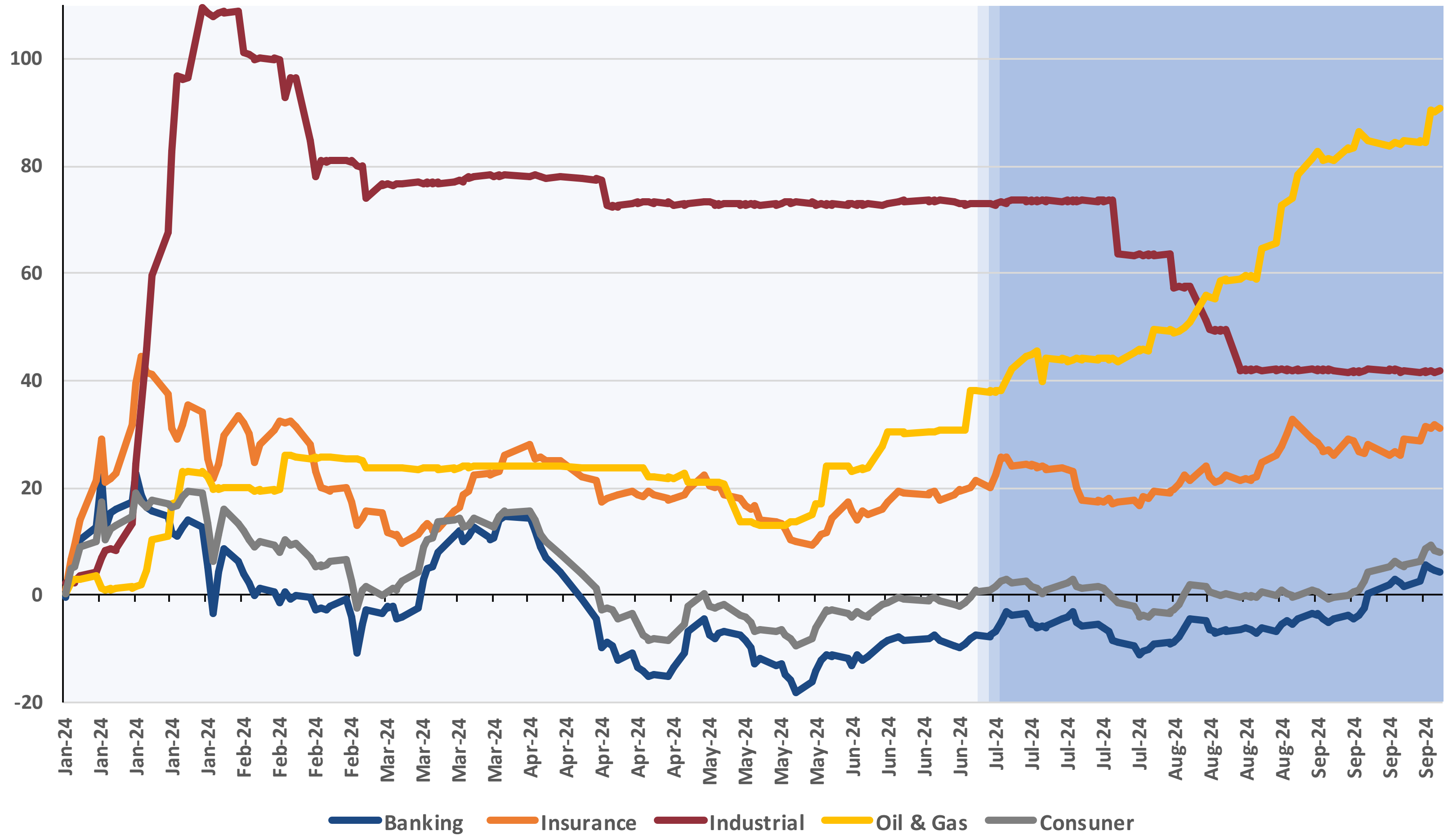
NGX-ASI	YTD	QTD
Open (N'Bn)	74,773.85	100,057.49
Close (N'Bn)	98,458.68	98,458.68
% Change	31.68	-1.60

MARKET CAP	YTD	QTD
Open (N'Bn)	40,917.41	56,601.49
Close (N'Bn)	56,577.71	56,577.71
% Change	38.27	-0.04

Data Source: NGX; Investing.com   *Note: End period for the data is September 27, 2024*

NGX ASI loss in Q3 2024 driven mainly by a decline in the industrial sector index

Year-to-Date Performance across Major Sectors on the NGX (%)



SECTORS	YTD
NSE ASI	31.68
NSE 30	31.29
Banking	4.08
Insurance	30.95
Industrial	41.87
Oil & Gas	90.87
Cons. Goods	8.03

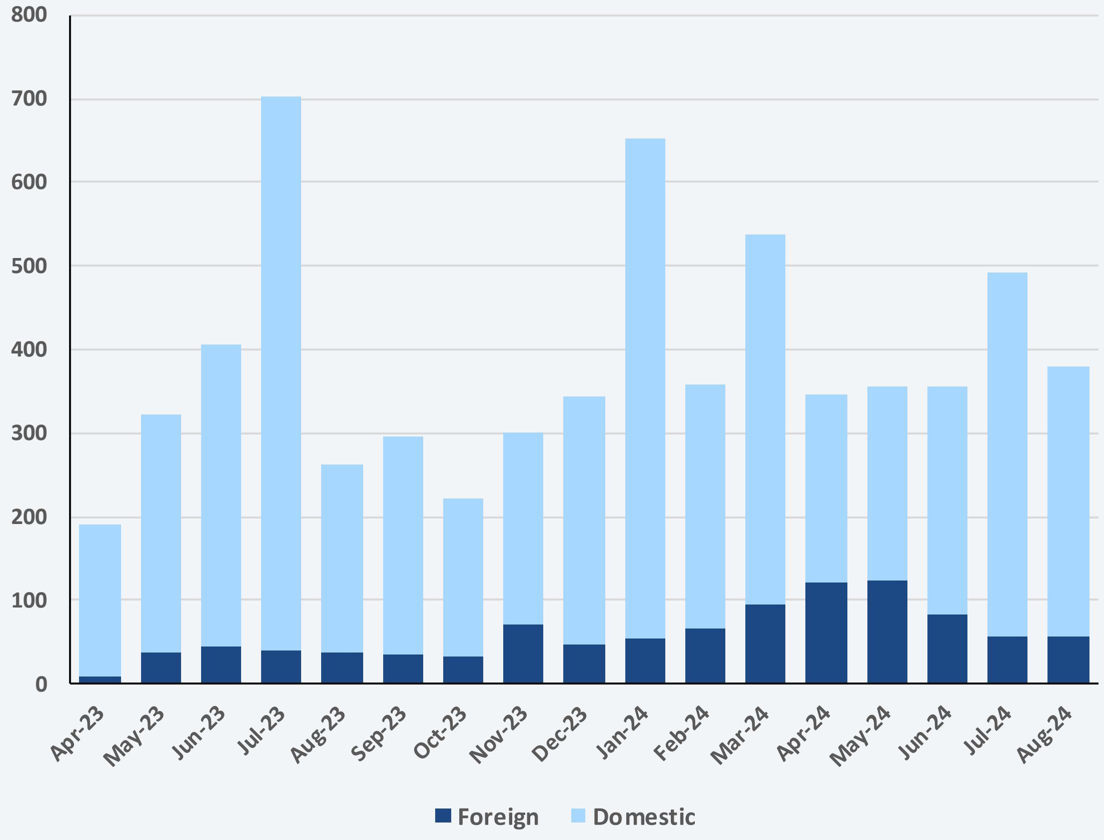
SECTORS	QTD
NSE ASI	-1.60
NSE 30	-1.26
Banking	12.48
Insurance	7.84
Industrial	-18.06
Oil & Gas	38.19
Cons. Goods	7.09

CEMENT INDUSTRY	QTD
DANGCEM	-18.99
BUA	-20.46
LAFARGE	6.61

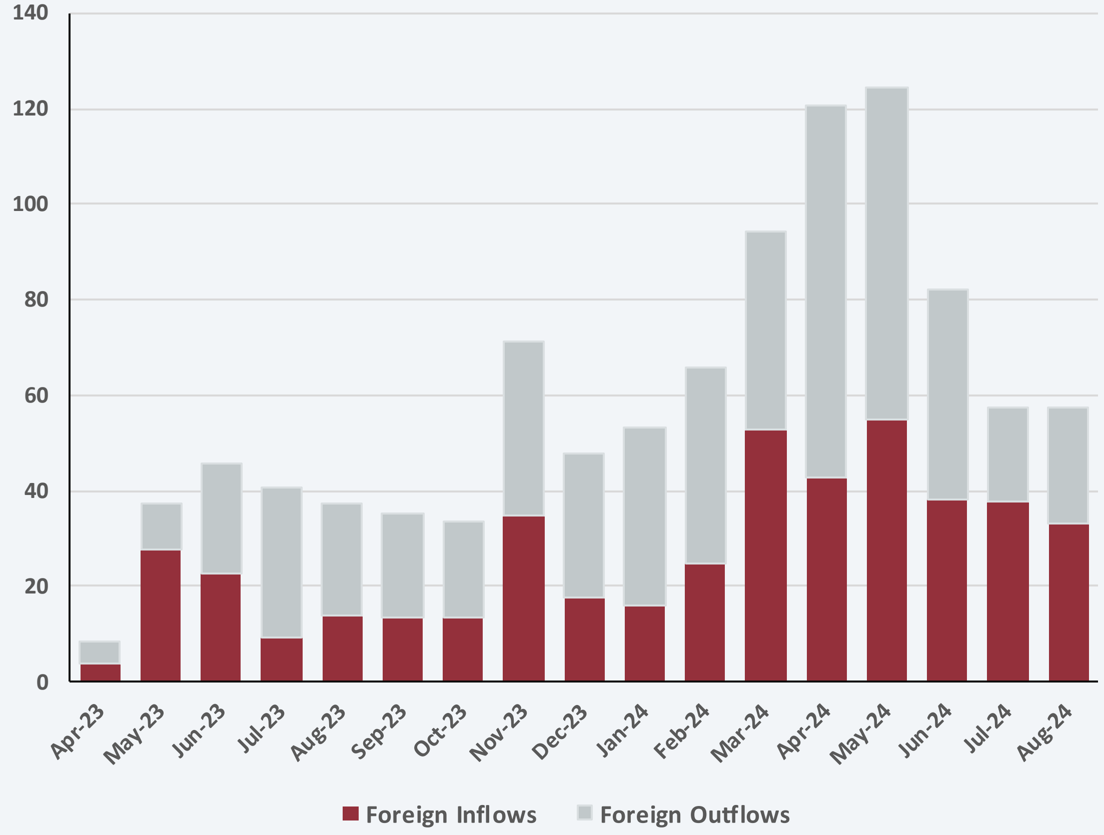
Data Source: NGX; Investing.com Note: End period for the data is September 27, 2024

Foreign investment inflows into equities moderate as Bond market yields rise

NGX Domestic & Foreign Participation (N' Billion)



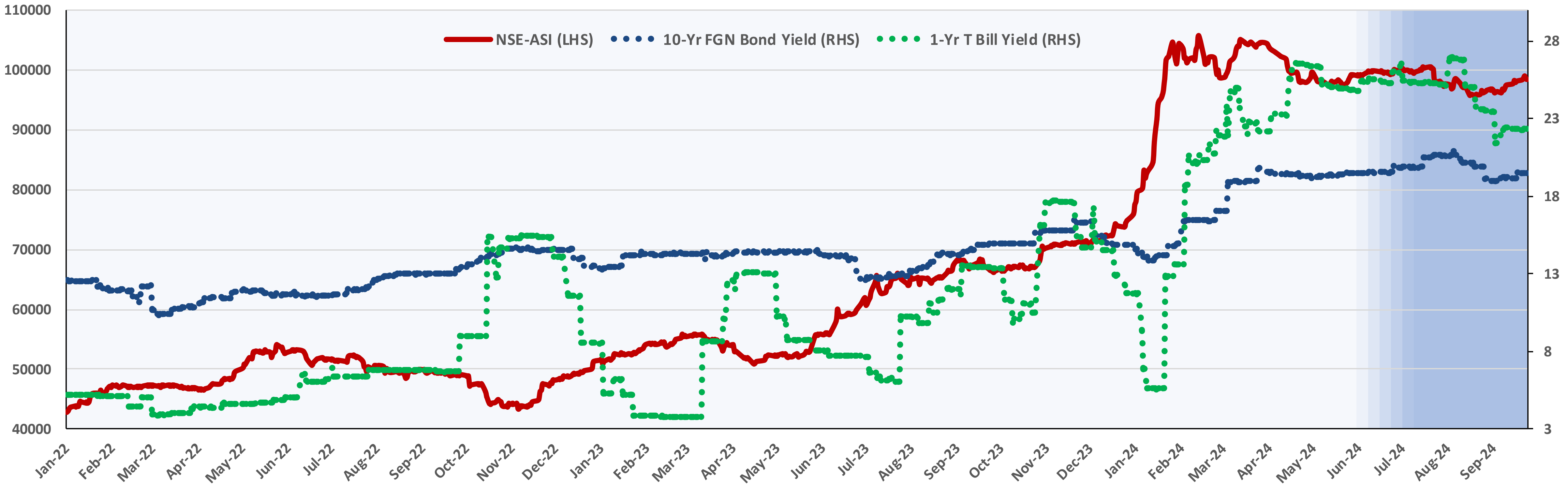
NGX Foreign Flows (N' Billion)



Data Source: NGX

Equity market lost momentum as rate hikes motivated elevated yields in the fixed-income market

NGX-ASI Compared with 10-Year FGN Bond Yield (%) and 1-Year T-Bill Yield (%)



In response to hikes in policy interest rates, yields in the bond and Treasury Bill markets rose significantly. The yield on a 1-Year NT-Bill peaked at 26.5% in Q3 2024 before subsiding due to increased demand. Similarly, the yield on a 10-Year FGN Bond reached 20.7%. As yields increased in the fixed-income market, the equity market lost momentum, with the NGX All-Share Index (ASI) recording a 1.8% loss in Q3 2024, compounding the 4.3% loss from Q2 2024.

Data Source: NGX, FMDQ, Investing.com *Note: End period for the data is September 27, 2024*

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Analyst Views and Outlook

Fixed Income Market

- The hawkish monetary policy has been the primary driver of activities in Nigeria's financial market, with yields remaining high in response to the CBN Monetary Policy Committee's interest rate hikes.
- In Q4-2024, several factors could influence the fixed-income market yields, including the anticipated N1.40 trillion in Treasury Bills and OMO maturities, which could be reinvested into the market and help stabilise yields. However, the government's high borrowing continues to exert upward pressure on yields. As of August 2024, credit to the government surged by 63.9% month-on-month, while credit to the private sector declined by 1.0%, further intensifying the pressure on government bond spot rates in the primary market.
- Investor sentiment is likely to remain mixed, with some expecting higher yields in the near term and others opting to lock in the already elevated rates. Nonetheless, yields are expected to stay high and will closely follow movements in the policy rate.

Equity Market

- In response to the elevated interest rate environment, the bullish momentum in the equity market has dissipated, largely due to bearish sentiment in the industrial indices. This shift was driven by profit-taking behaviours in DANGCEMand BUACEMENT, with proceeds flowing into the fixed-income market.
- The government's persistent hawkish stance will keep yields elevated over the next few quarters, discouraging bullish sentiment in equities. In addition to structural issues in the banking sector and the 50-70% Forex Windfall Tax, the elevated interest rate environment poses a significant challenge to the uptake of public offerings and rights issues by commercial banks as they attempt to ramp up recapitalisation efforts.
- Looking ahead to the next quarter, we expect the equity market to deliver a relatively positive performance as the year winds down, with investors likely to take positions in dividend-paying stocks in anticipation of strong financial results.

SECTION 05

Short-term Priorities for Economic Stability

64 years after independence, Nigeria still grapples with basic economic challenges

While Nigeria has made significant progress in areas such as finance, telecommunications and digital inclusion, key economic challenges persist.

Macroeconomic Instability

Nigeria's GDP growth has averaged 2% over the past decade, well below the country's potential growth rate. Exchange rate has been unstable, accompanied by persistently high inflation rates.

Challenges in the Oil & Gas Sector

Persistent fuel scarcity, limited investments in the upstream sector, regulatory challenges, and an opaque subsidy regime are key factors that have constrained the sector's growth.

Inadequate Infrastructure

Public and social infrastructure, such as rail systems, roads, and bridges, has failed to keep pace with Nigeria's ever-rising population.

A Tough Doing Business Environment

Nigeria remains a challenging place for businesses due to regulatory hurdles, limited access to finance, inadequate infrastructure, an unstable exchange rate, and persistent power supply.

Low Agricultural Productivity

Insecurity, limited investments in agriculture and low technology adoption continue to affect agricultural productivity. Hence, farmers are among the poorest in the country.

Poor Power Supply

Nigeria generates less than 10 GW of electricity, which is insufficient to cater for the population.

While the current government has taken steps to address the decades-long challenges, these efforts have yet to translate into significant improvements in broad development indicators. Some of these efforts include:

- Continued implementation of the ease of doing business reforms by the Presidential Enabling Business Environment Council.
- Approval of the Economic Stabilisation Bills to be submitted to the National Assembly. The Bills seek to amend over 15 tax, fiscal, and establishment laws, to ensure economic stability.
- The implementation of market-oriented reforms including the removal of petrol subsidies, hike of electricity tariffs and foreign exchange reforms aimed at freeing up government resources and attracting investment into key sectors.
- Flag-off of Dry Season Farming initiative to enhance food security.

Dangote Refinery: A Game Changer for Nigeria's Oil & Gas and Manufacturing Industries, with Potential to Resolve the Country's Fuel Challenges

- Inaugurated in May 2023, the Dangote Refinery (DR) is the world's biggest single-train facility and Africa's biggest refinery, with a production capacity of 650,000 barrels per day (BPD).

- When fully operational, the facility will produce petrol, diesel, aviation fuel, naphtha, polypropylene and liquefied petroleum gas (LPG) in large quantities and is expected to meet all of Nigeria's domestic demand for petrol, with a surplus for exports.

- S&P Global estimates that Nigeria imports about 50-60 million litres of petrol per day* to meet domestic demand.

- DR has the potential to reduce petrol imports and ensure that Nigeria becomes an exporter of petroleum products in the medium term. This will be a game-changer in Nigeria's quest to become self-sufficient in the production of energy products.

- **The impact of the refinery on the price of petrol remains unclear and will depend on several factors such as the price/cost of crude oil, logistics costs, exchange rate and the government's subsidy intervention.**

*https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/oil/011424-nigerias-long-awaited-dangote-refinery-starts-diesel-jet-fuel-output

Dangote Refinery has significant economic benefits for Nigeria

Some benefits of the Dangote Refinery

- **Self-Sufficiency:** Nigeria will become self-sufficient in the production of petroleum products. The share of manufacturing in GDP is expected to increase when production resumes fully.
- **Conserve Foreign Exchange:** with mineral fuels accounting for 30-40% of Nigeria's import bills, local sourcing of petroleum products will conserve FX for Nigeria.
- **Enhance Foreign Exchange Earnings:** the Dangote Refinery aims to export petroleum products to other African countries, thereby attracting forex inflows into Nigeria.
- **Jobs and Value Chain Development:** the refinery will create thousands of jobs and have immense impact on areas such as transport, rubber, fertilizer, etc.

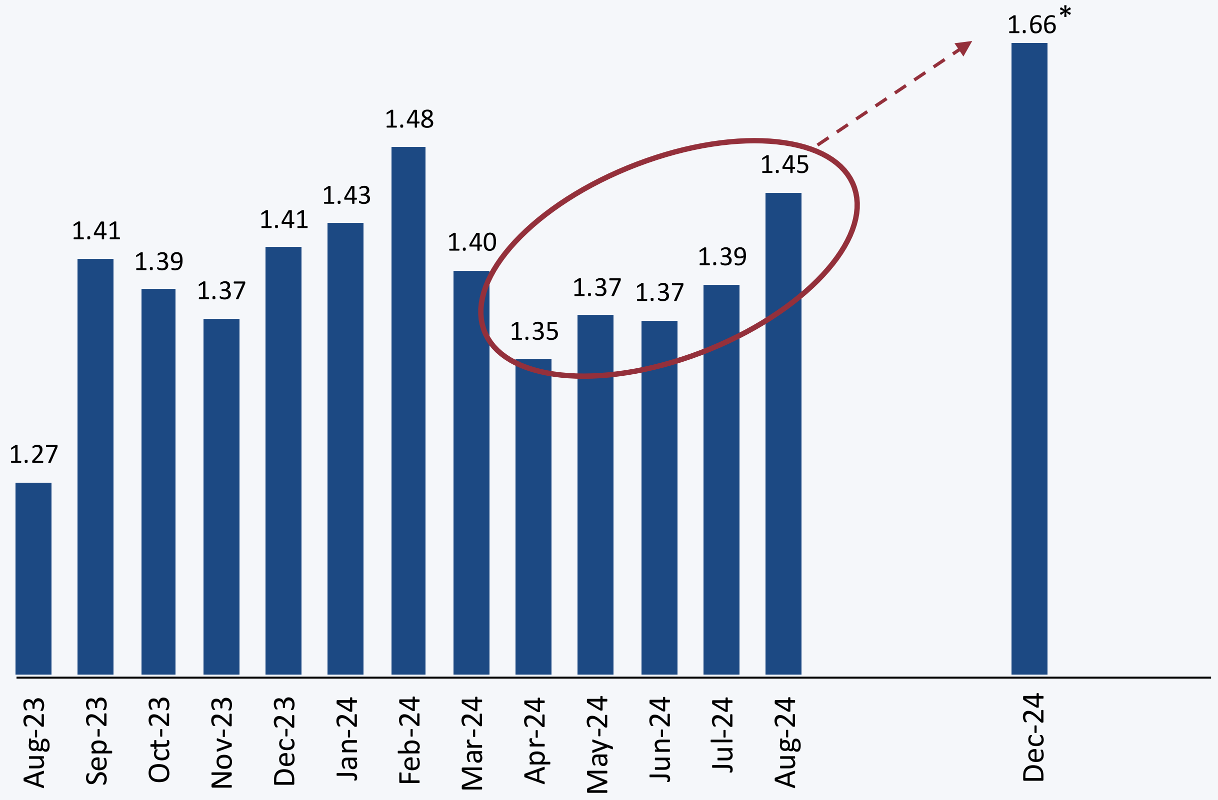
> *By even making sure we have taken Nigeria out of a petroleum product import country for the first time in the history of Nigeria is a great milestone which I am very proud about.*

- Aliko Dangote, Chairman, Dangote Industries during an interview with Bloomberg*

* https://www.youtube.com/watch?v=M9bGh85wcio&t=70s

The benefits of the Refinery to the economy can be maximized if Nigeria's oil production increases significantly

Nigeria's Average Crude Oil Production (million barrels per day)



*We anticipate gradual improvement in oil production due to efforts to curb oil theft and attract investments into the sector

With Nigeria's oil production averaging 1.4 million barrels per day from January to August 2024, FX inflows from crude oil sales may be negatively affected especially as crude oil will be sold to DR in Naira.

The short term benefits of the Refinery can be maximised if:

- ***Nigeria's crude oil production increases to about 2 million barrels per day*.***
- ***DR can earn significant foreign exchange by exporting its products to other countries.***

Source: FSDH Research, OPEC

Key priorities for the next 6-12 months to stabilize the Nigerian economy and achieve high growth

Reduce Inflation

- Pursue a large-scale mechanization of agriculture
- Address insecurity
- Adopt technology to reduce food wastage
- Halt Ways and Means
- Ensure exchange rate stability by enhancing market inflows

Grow Exports

- Intensify efforts to address oil theft and enhance production
- Reform the NNPC
- Prioritise manufactured goods exports leveraging the AfCFTA
- Provide large-scale financial and regulatory support to SMEs to enhance export capacity

Budget Reforms

- Scrutinize budgets (FGN and States) to remove frivolous items and ensure efficiency
- Revisit spending priorities to focus on high-impact projects
- Strengthen monitoring and accountability frameworks

Ease of Doing Business Reforms

- Harmonise taxes
- Implement power sector reforms to attract new investments
- Incentivise investment in clean energy and encourage adoption
- Implement port and border reforms to ensure efficiency
- Provide seamless support to Dangote Refinery and negotiate for a fair price of petrol

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Macroeconomic Projection for 2024 – 2025

Macroeconomic Projection for 2024: Rationale for the Three Scenarios

Best Case	The best case scenario assumes an oil price of US$95 per barrel for 2024. This assumption is driven by key factors such as the escalation of the crisis in the Middle East, the attack of vessels in the Red Sea, the continuation of the Russia-Ukraine war and oil production cuts by OPEC and OPEC+ to maintain high oil prices in the year. In the domestic economy, Nigeria's oil production improves to 2 million barrels per day following progress made in curbing oil theft. In addition, increased earnings from crude oil sales translate into higher government spending on capital projects with an injection of N7 trillion, which is 70% of the 2024 capital budget.
Moderate Case	Oil price averages US$88 per barrel following the continued tensions in the Middle East and the increased supply of crude by the US to moderate prices. Events such as the slowing Chinese economy and the war in Ukraine place a cap on crude oil prices. Within Nigeria, there is continued progress in curbing oil theft , and crude oil production averages 1.66 million barrels per day, below the budget benchmark of 1.78 mbpd. As such, spending on capital expenditure amounts to N4.9 trillion, which is 47.5% of capital expenditure in the 2024 budget.
Worst Case	This scenario assumes a bleak global outlook from the lens of an oil-exporting economy. Crude oil price averages US$52 per barrel as global demand drops. Oil theft in the Niger Delta intensifies and oil production falls to 1.1 million barrels per day. Consequently, government revenue declines leading to a spending of N1.2 trillion for capital expenditure in 2024.

Source: FSDH Research

Macroeconomic Scenario for 2024

Scenario	Assumptions	Outcome
Best Case	• Oil price averages US$95 per barrel • Demand for Nigerian crude improves - Nigeria produces 2 million barrels per day • Government capital spending at N7 trillion	• GDP Growth at 4.2% • Inflation Rate at 24.4% • External Reserves at US$39.1bn • Average Exchange Rate at N1100/US$
Moderate Case	• Oil price averages US$88 per barrel • Crude oil production at 1.66 million barrels per day • Government capital spending at N4.9 trillion	• GDP Growth at 3.2% • Inflation Rate at 33.1% • External Reserves at US$35.2 billion • Average Exchange Rate at N1,446/US$
Worst Case	• Oil price averages US$52 pb • Lower crude oil production- Nigeria produces 1.1 million barrels per day • Government capital spending at 1.2 trillion	• GDP Growth at 1.1% • Inflation Rate at 37% • External Reserves at US$28.2 billion • Average Exchange Rate at N1,968/US$

Source: FSDH Research

Projection for 2024 – 2025 for Nigeria

	2022	2023	2024f*	2025f*
Real GDP Growth	3.1%	2.74%	3.2%	3.4%
Inflation rate	18.8%	24.5%	33.1%	32.5%
Average Exchange rate (N/US$)	423	645.18	1,446	1,638
Monetary Policy Rate (End Period)	16.5%	18.75%	27.5%	24.5%
External Reserves (Average, US$ Billion)	38.8	34.7	35.2	37.5
Treasury Bill (91-Day)	4.4%	4.6%	15.5%	13.0%
Treasury Bill (182-Day)	5.6%	7.6%	16.5%	14.5%
Treasury Bill (270-Day)	7.3%	10.1%	19.0%	16.0%
Treasury Bill (360-Day)	8.6%	11.2%	19.5%	17.5%

**Please note that there is still a high degree of uncertainty. Actual figures could exceed or fall below these forecasts. 2024 figures reflect our moderate-case scenario*

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Source: FSDH Research

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