

# **The Nigerian Economy in 2024 and Beyond: Priorities for Long-term Recovery and Growth**

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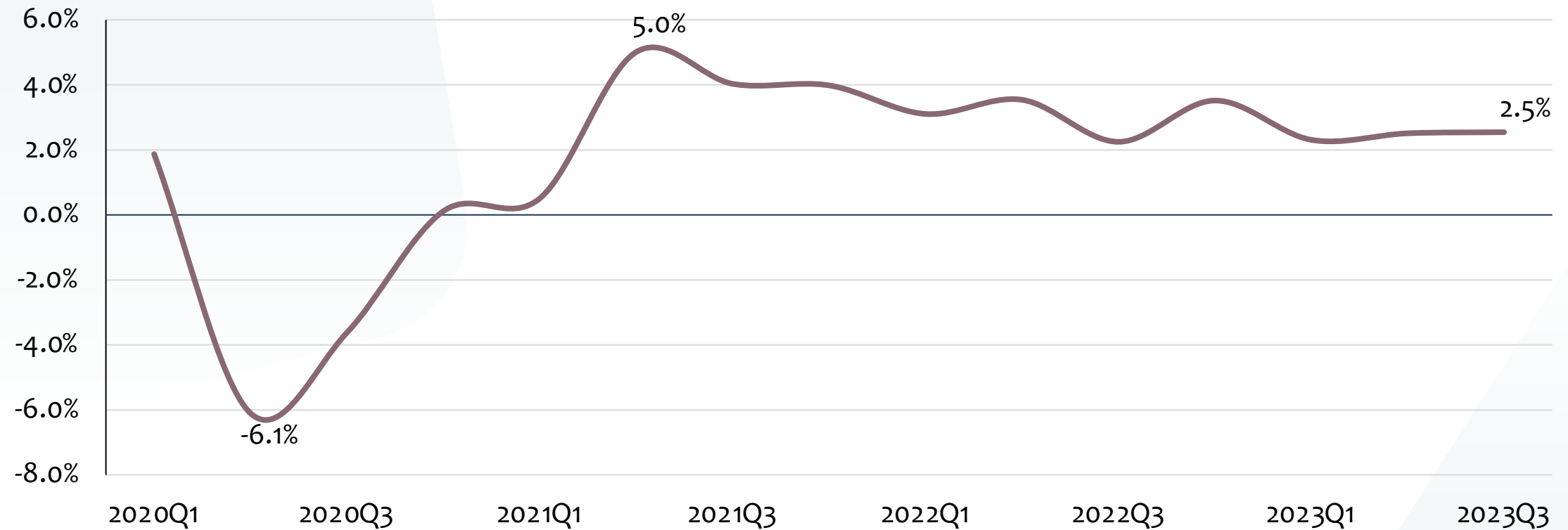
# Outline

- Review of the Nigerian Economy Pre-2024
- The Path to Long-Term Recovery and Growth
- What to expect in 2024
- Conclusion

# **Review of the Nigerian Economy Pre-2024**

# The Nigerian economy: An era of low growth

Nigeria's real GDP Growth (%)

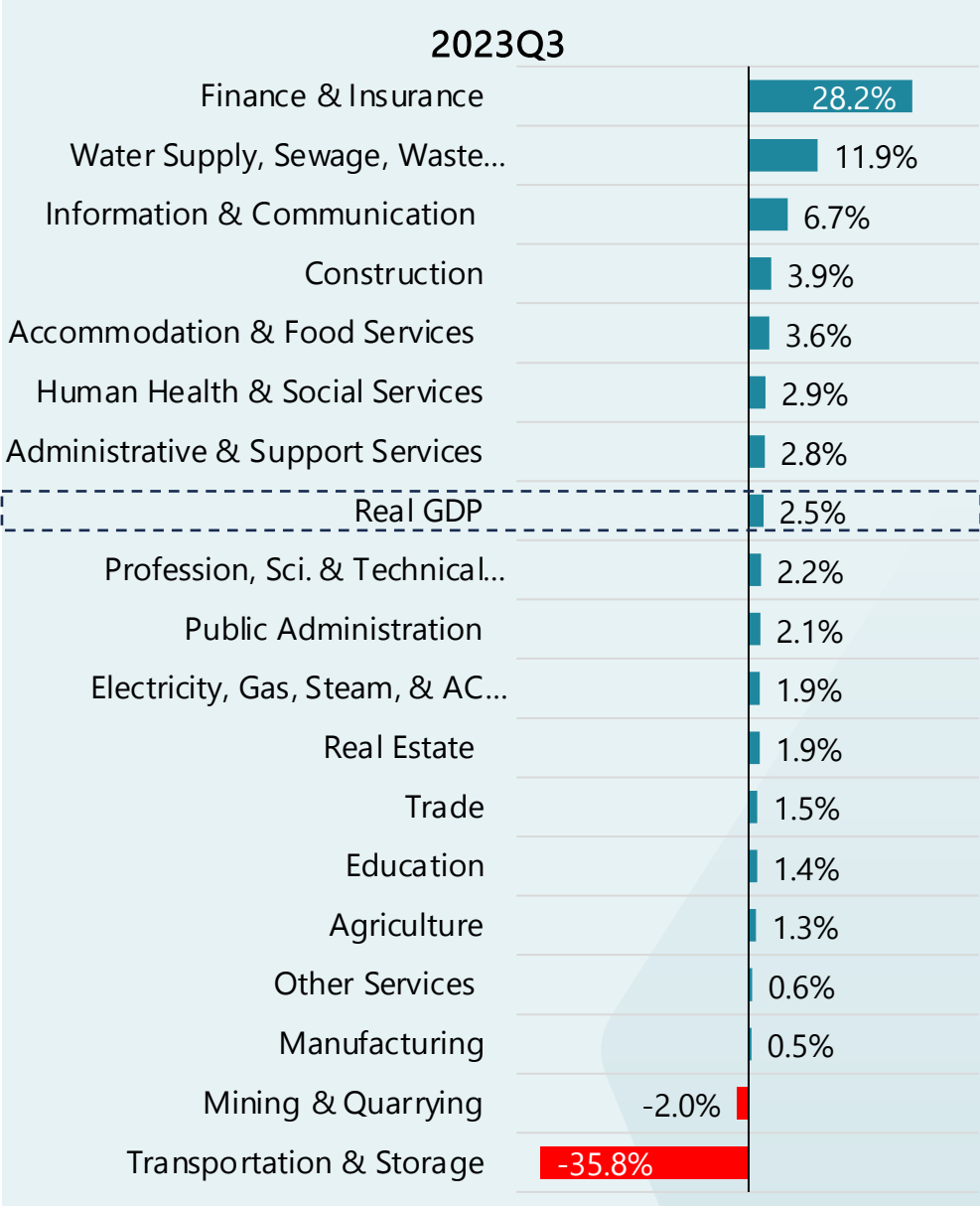


- Average growth for Q1-Q3 2023 is 2.5%, lower than many forecasts at the start of the year.

# Finance and ICT remain key growth sectors

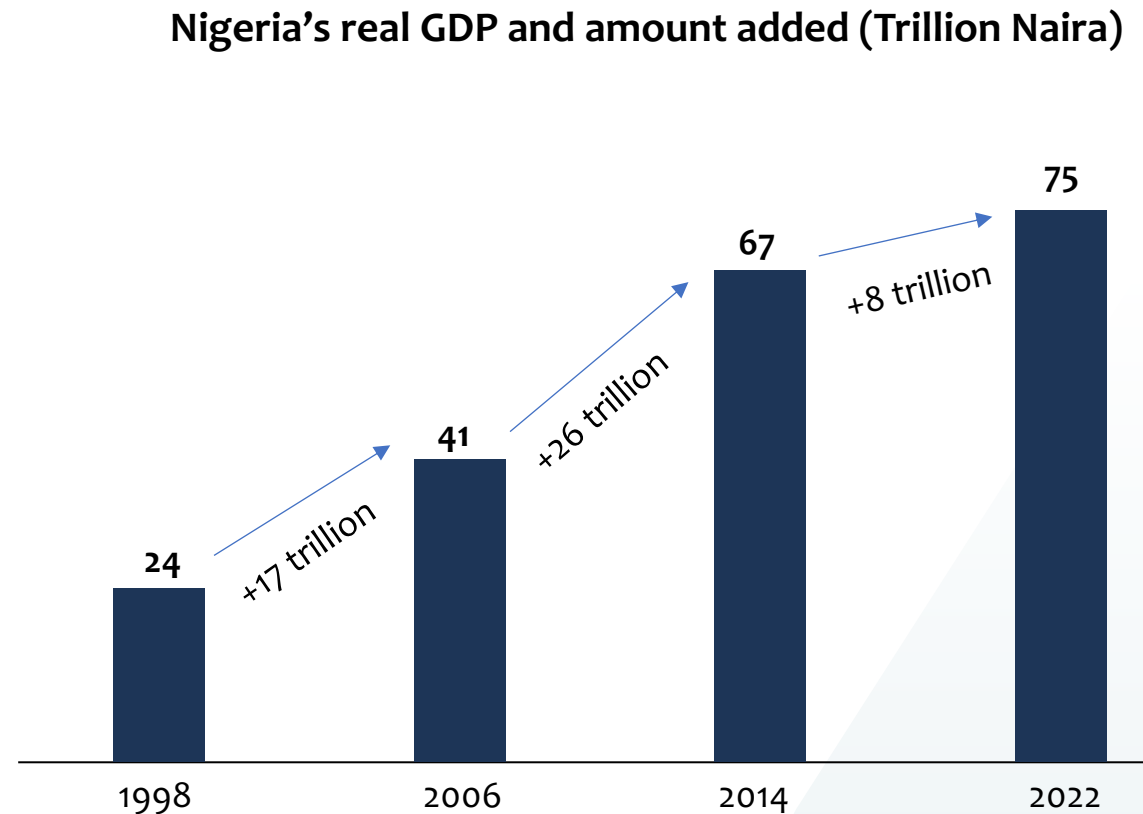
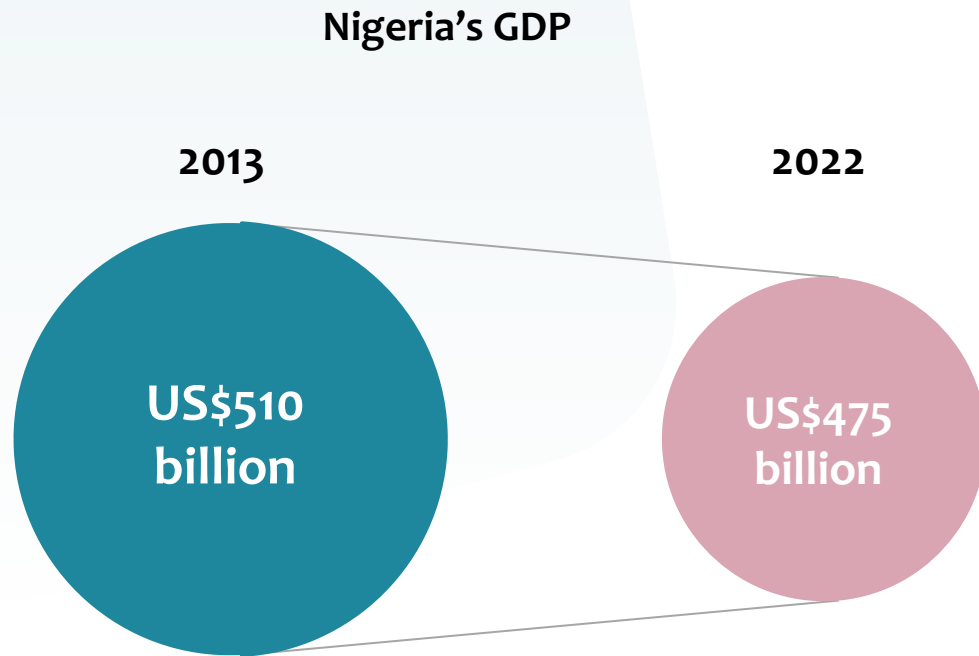


Agricultural output declined for the first time since 1991! Reflects the impact of Naira scarcity & insecurity.



Data Source: NBS

# In dollar terms, Nigeria's economic pie has shrunk. In Naira terms, the pie is not big enough for the population

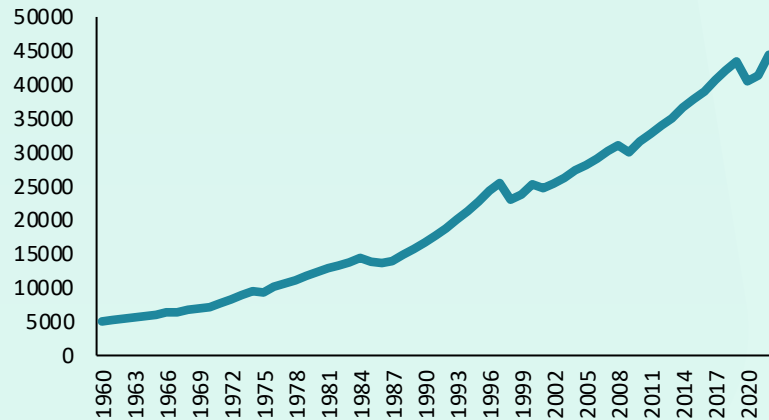


The economic pie has shrunk significantly in the last 9 years and there is very little to share among the populace. Part of why there are 133 million individuals living in multidimensional poverty.

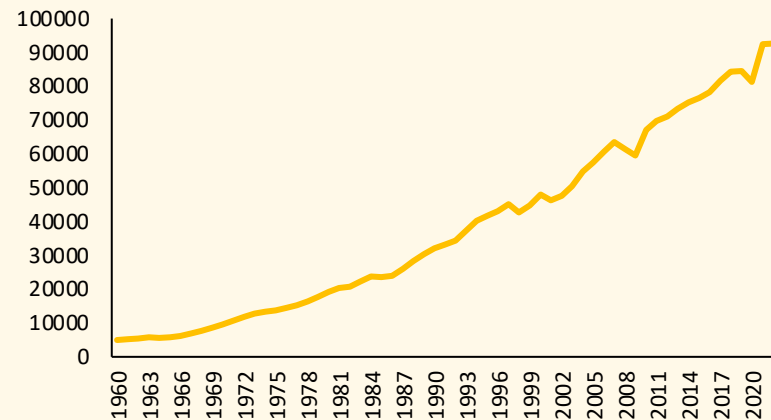
# High and consistent growth is necessary for economic development

GDP per capita (constant local currency) – Years of increase

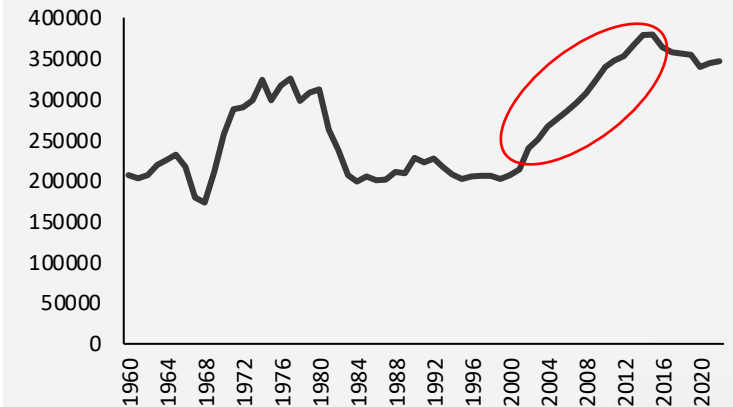
Malaysia - 24 years of increase only one decline



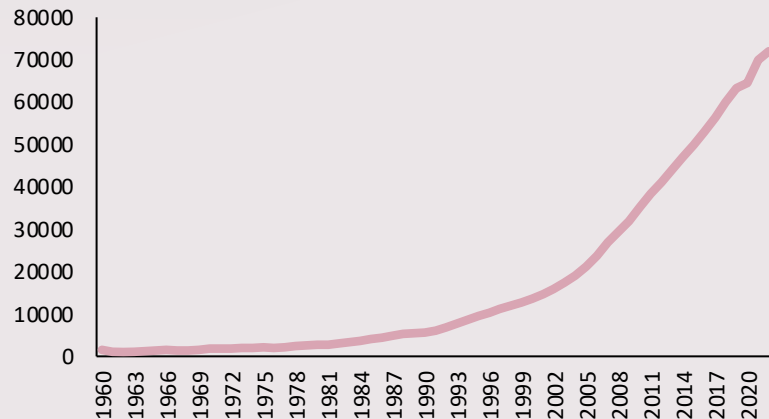
Singapore - 33 years of increase only one decline



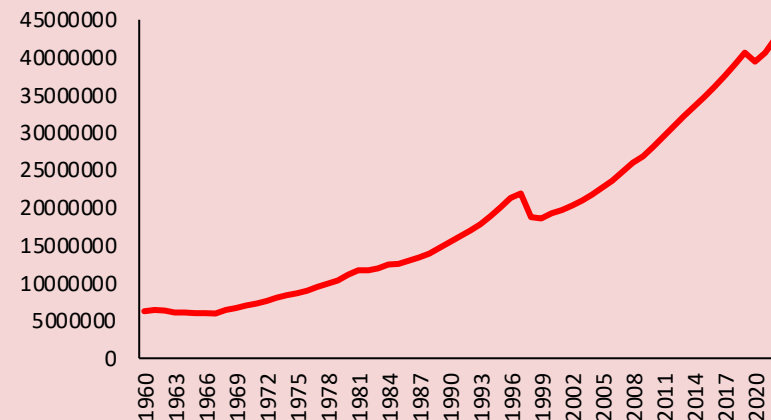
Nigeria - 16 years of increase



China - 54 years of increase only one decline



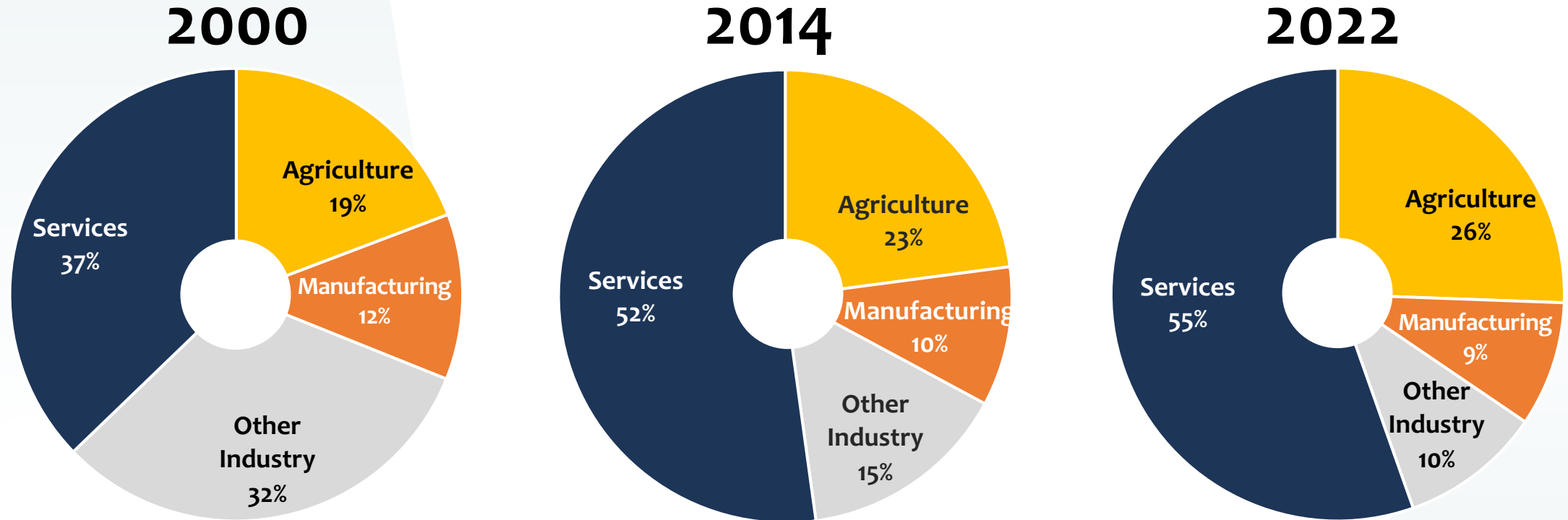
Indonesia - 30 years of increase only one decline



Nigeria's growth in the 2000s was not long and inclusive enough to significantly address unemployment and poverty.

# The structure of the economy matters for development

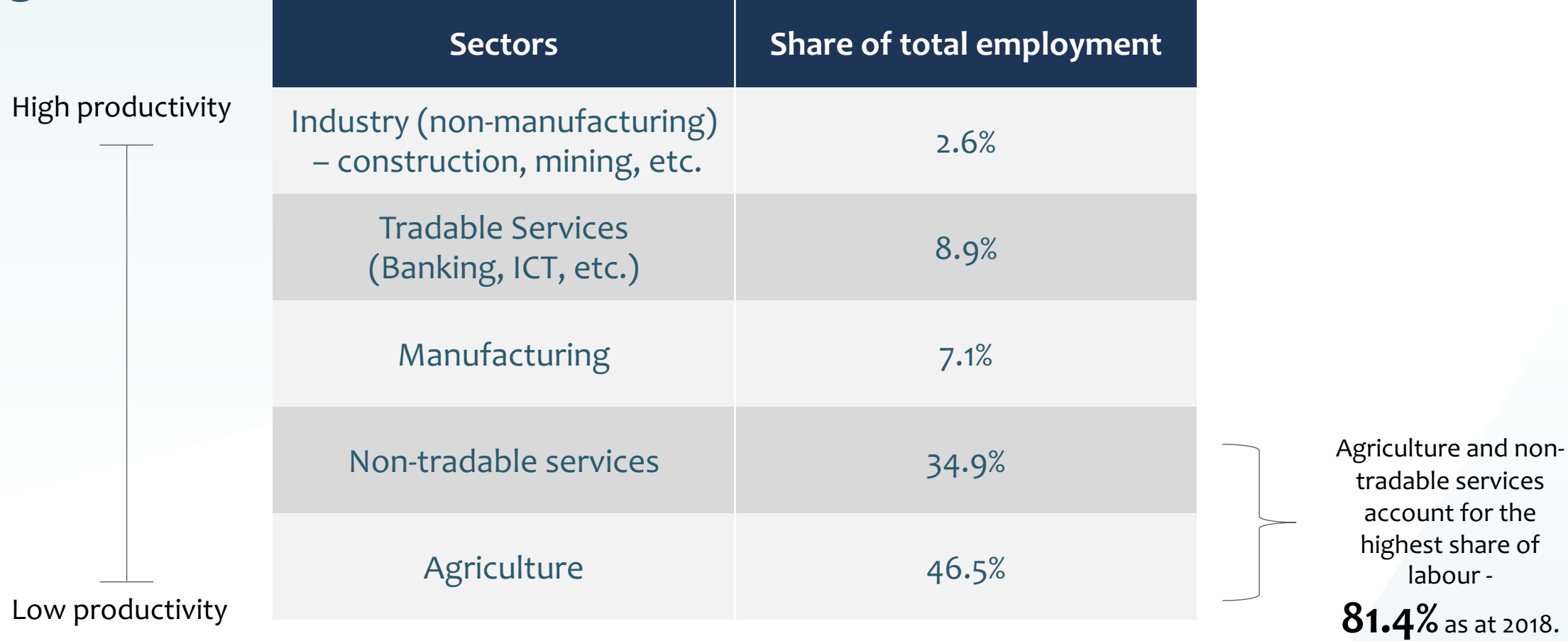
Sectoral GDP Composition



Agriculture is the sector with the lowest labour productivity in Nigeria but its share of GDP is increasing. Agriculture is important, but we need technology in agriculture to raise its productivity. Industry is yet to reach its potential but its share in GDP is declining. A case of premature de-industrialisation?



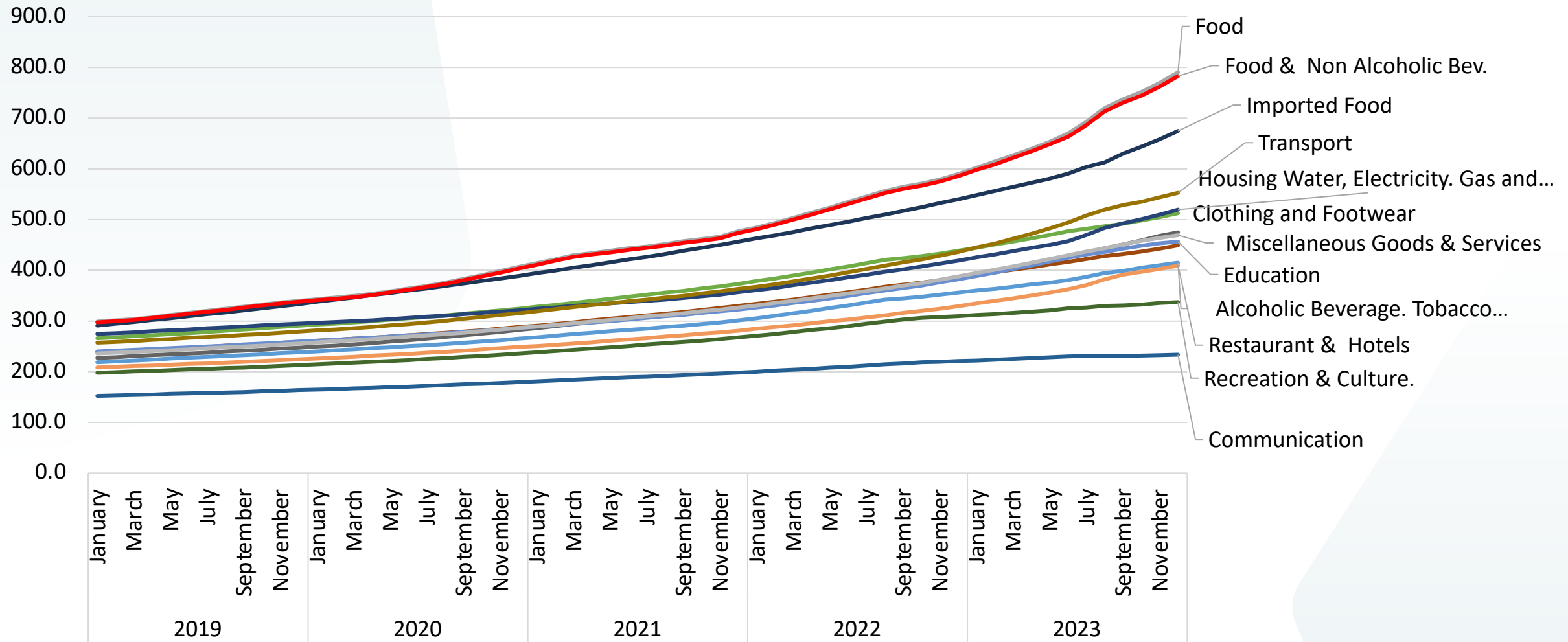
# The least productive sectors employ the largest share of workers in Nigeria



Essentially, the jobs that will lift people out of poverty in Nigeria do not exist in large numbers.

# Food and Imported Food are key drivers of rising prices

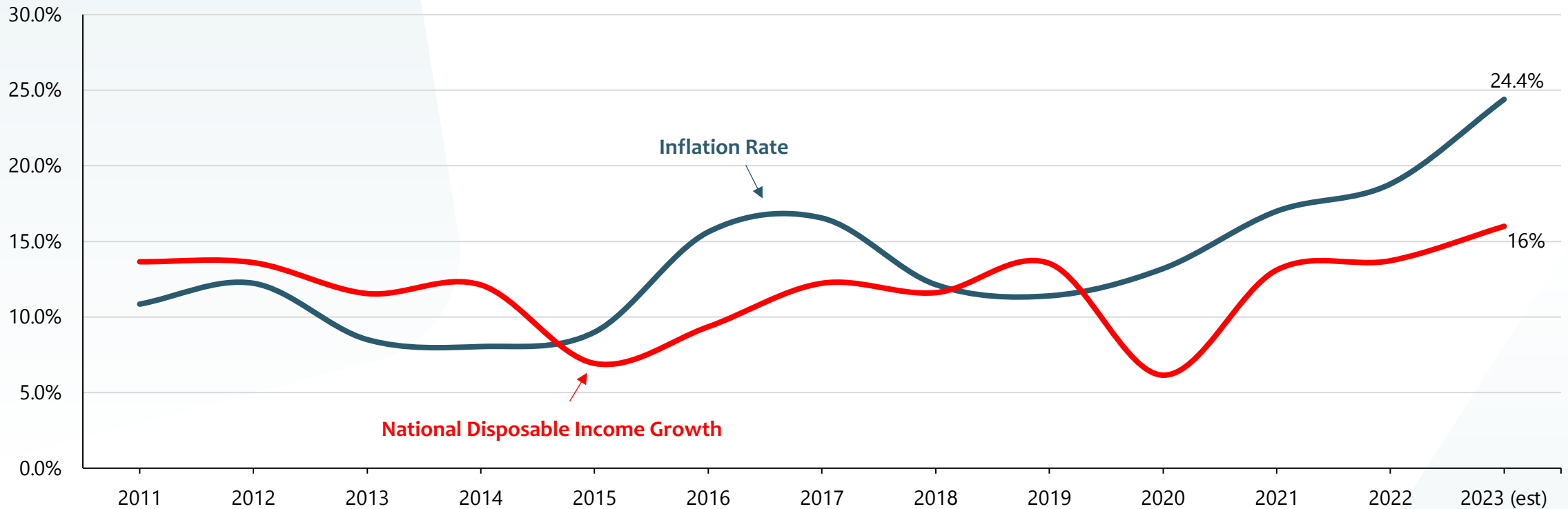
Nigeria's Consumer Price Index (Jan 2019 – Dec 2023)



Data Source: NBS; Wilson Erumebor

# Inflation is bad for consumers

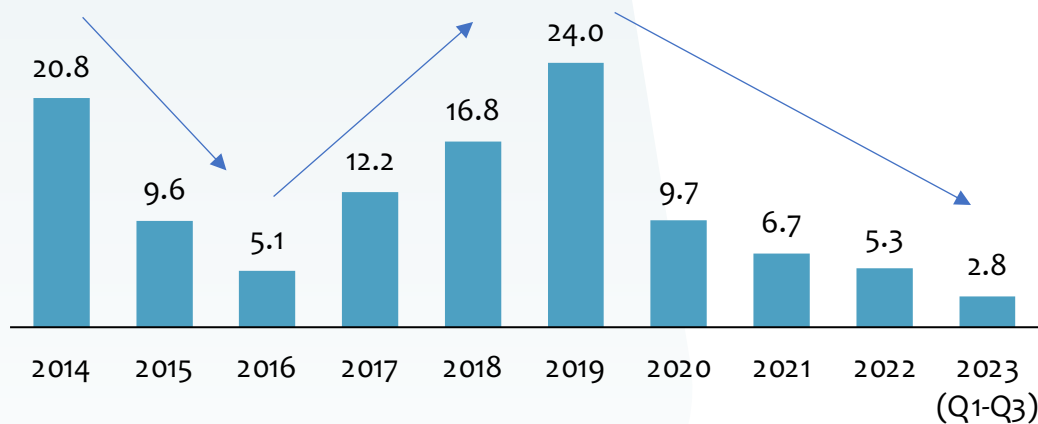
Nigeria's annual AVERAGE Inflation Rate vs National Disposable Income Growth



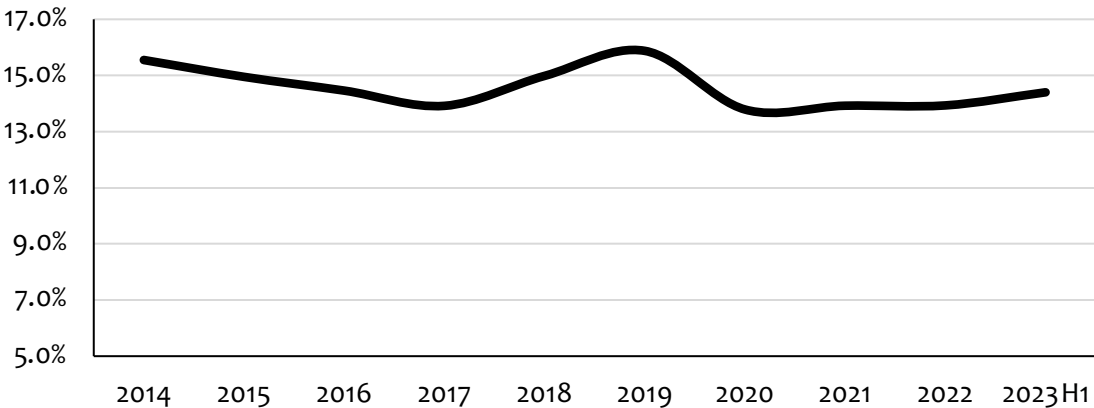
- High Inflation erodes the disposable income of households/individuals.

# Investment figures reflect a weak confidence level

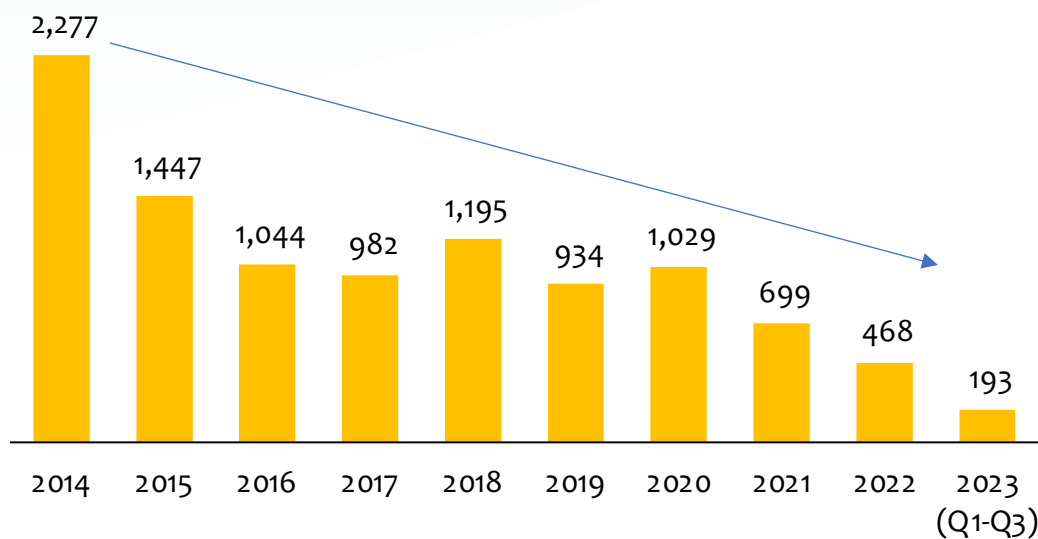
Nigeria's Foreign Investment Inflows (US\$ Billion)



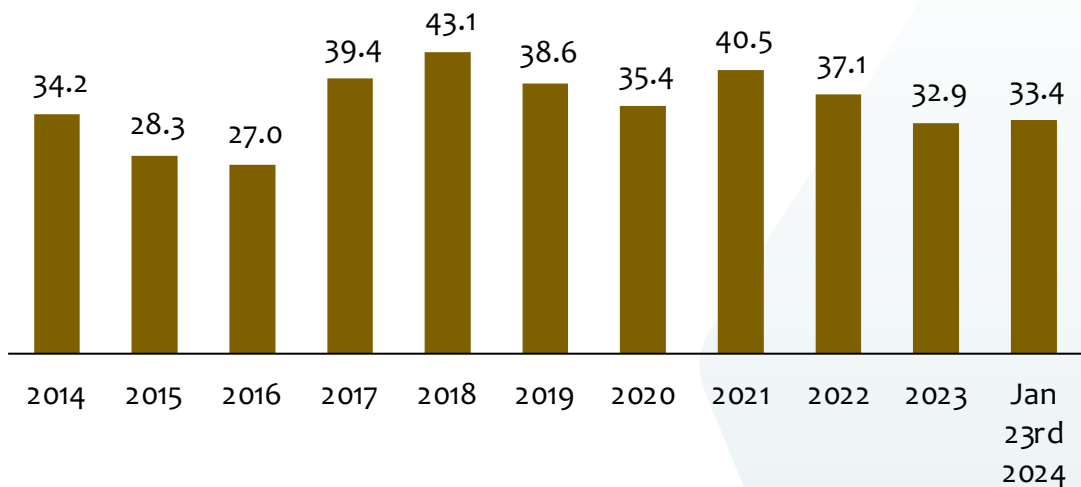
Investment as a share of GDP



Nigeria's Foreign Direct Investment Inflows (US\$ million)



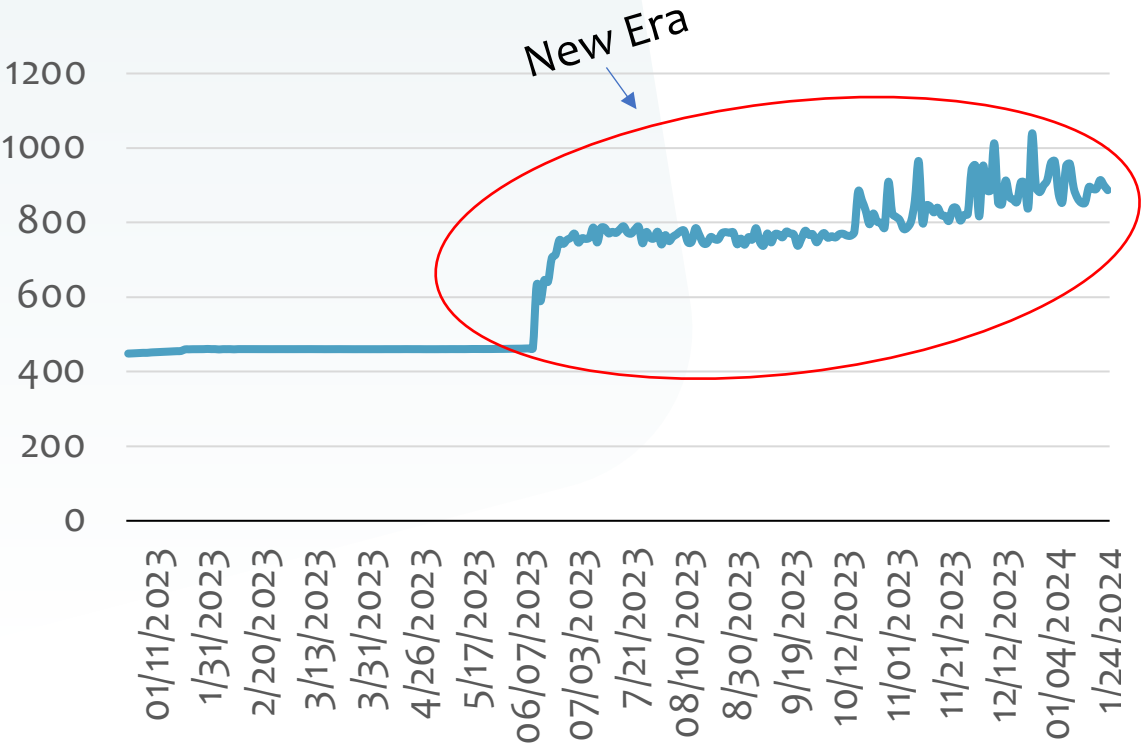
Nigeria's External Reserves (Billion US\$) (End-period)



Data Source: NBS, CBN

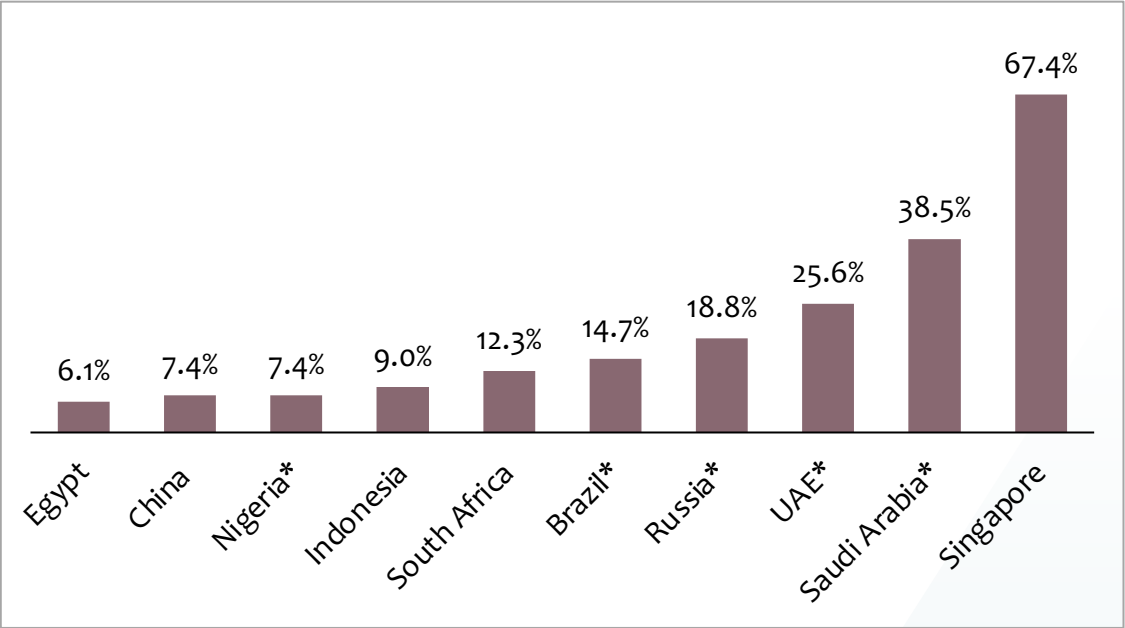
# Exchange rate depreciation is a symptom of a much bigger problem of weak productivity

Nigeria's Official Exchange Rate (Naira per US\$)



- Parallel market rates also show similar pattern

Foreign Reserves as a % of GDP



\*Oil Exporters

- Countries with increased capital inflows, a large financial market and the US can afford to have lower foreign reserves as a percentage of their GDP.

# Challenges associated with Nigeria's highly fragmented FX market

## Potential FX Inflows



### High inflow into “unofficial” markets

FinTech Apps and black market operators receive huge FX inflows. Intense competition means that a weaker Naira is a huge incentive for them to attract FX - speculation.

## Delays/Restrictions



### Delays/Restrictions in the official market

A lot of legitimate transactions that could have been done in the official market are executed in the parallel market.

## FX Inflows



### Low inflow into the official market

Weak inflow from crude oil, FPIs, FDI, and other exports. e.g.

- Oil production in 2013 was 2.1 mbpd. In 2023, it was 1.25 mbpd.

## High FX Demand



### Rising demand for FX

Driven by rising imports, exposure of firms to imports of raw materials and machinery, services payments – school fees, etc., debt service payments.



## Role of the CBN\*

**Key question for the CBN:** How to navigate a fragmented FX market where scarcity/delays in one fuels demand in the other?

### Some considerations

- Raise rates on fixed-income instruments to attract FPIs.
- Continue to clear FX backlogs to instill confidence.
- Engage with FinTech Apps on potential dollar inflow.
- To boost confidence, explore these options:
  - *Option 1: Sacrifice a portion of the reserves to ensure a stable official rate for some months.*
  - *Option 2: Allow further depreciation but focus on growing reserves.*

\*Addressing Nigeria's FX problems requires collaborative efforts between the CBN and non-monetary authorities.

# How FX and Subsidy Reforms are affecting economic agents

<b>The Market</b>	<ul style="list-style-type: none"><li>- NGX All Share index has increased from 52,973 in May 26 to 65,687 in July 26 and 94,538 in Jan 19, 2024.</li></ul>	✓
<b>The Government</b>	<ul style="list-style-type: none"><li>- Significant increase in inflows into the federation account – N750 bn in Jan 2023 to N1.9 trln in June and over N1trn since</li></ul>	✓
<b>The Real Sector</b>	<ul style="list-style-type: none"><li>- High cost of doing business – FX, diesel, etc.</li><li>- High unemployment &amp; low productivity</li><li>- Opportunity for non-oil export growth?</li></ul>	✗
<b>The Masses</b>	<ul style="list-style-type: none"><li>- Heightened Inflation.</li><li>- Weak citizens' purchasing power</li><li>- Growing distrust among citizens</li></ul>	✗

The reform should have been better structured - the costs and benefits evenly spread among agents. Policy and social support are needed to correct these imbalances.

# Tough economic conditions mean poor social outcomes

## Social Statistics

**92.7%**

Rate of informal employment among the employed Nigerians in Q2 2023.

**4.2%?**

Unemployment rate in Q2 2023

**12%**

Share of wage employment in Q2 2023.

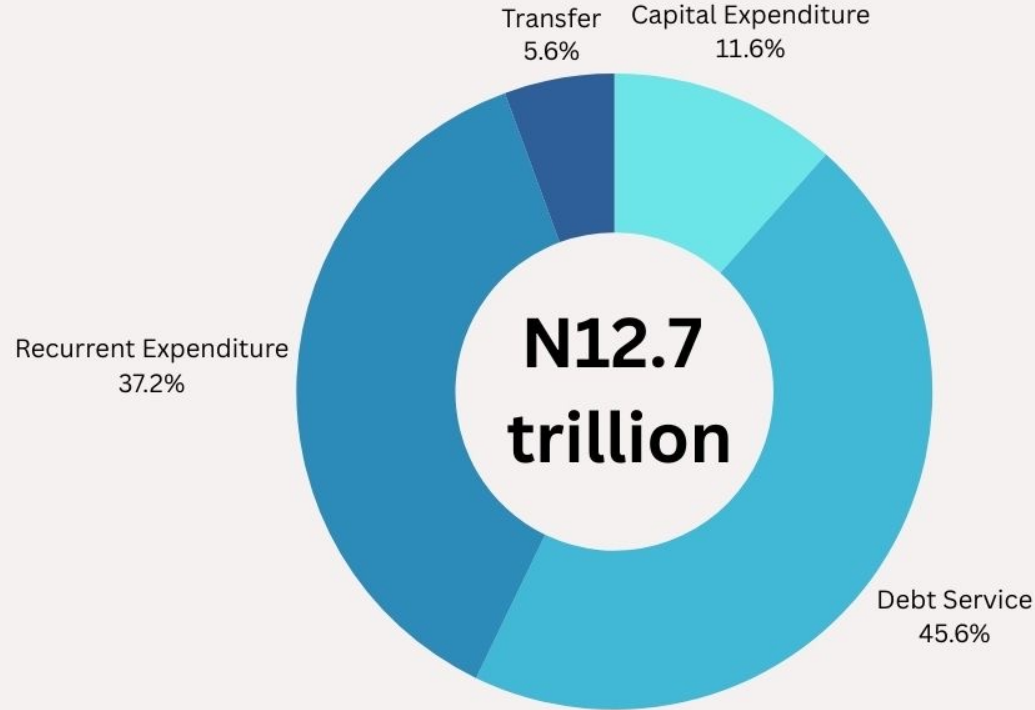
**63%**

Share of Nigerians living in multidimensional poverty



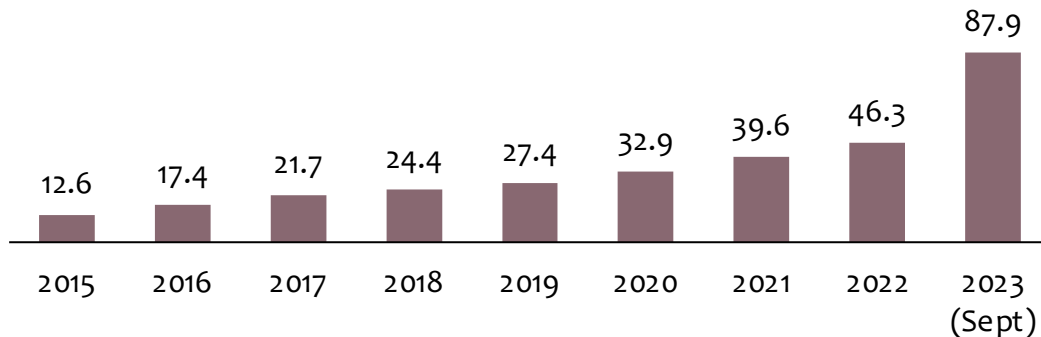


## What the Federal Government of Nigeria spent money on, from Jan to Sept 2023

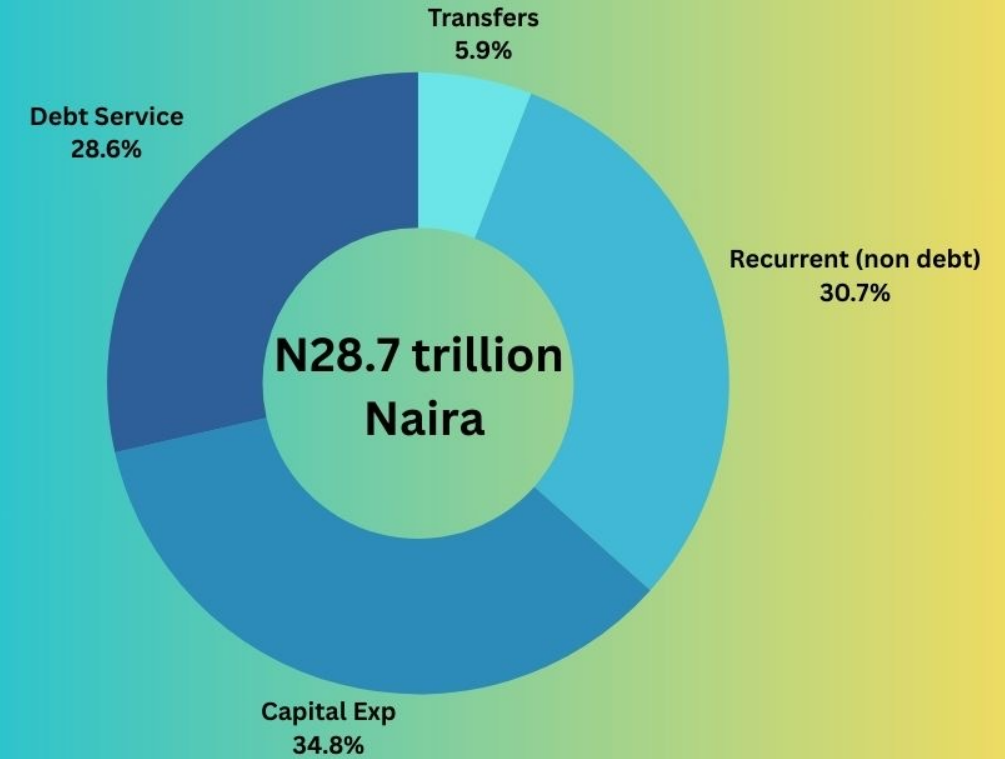


Source: Federal Ministry of Budget and Economic Planning; Chart:@wilsonrume on X

## Public Debt in Trillion Naira



## 2024 FGN Budget



## Key assumptions

- Oil price benchmark - \$77.96 per barrel
- Oil Production - 1.78 million barrels per day
- Exchange rate - N800 to \$1
- GDP growth - 3.88%
- Inflation rate – 21.4%

Data Source: DMO, Budget Office

# **The Path to Long-Term Recovery and Growth**

# Nigeria needs an agenda for high, sustainable and inclusive growth

## Elements of this agenda must include:

1. Enhance Nigeria's relevance in the global economy.
2. Focus on raising productivity.
3. Domestic resource mobilization.
4. Build industrial capabilities before it is too late!
5. There must be policy alignment.
6. Balance the impact of FX and Subsidy reforms on economic agents.



# 1. Enhance Nigeria's relevance in the global economy

How relevant are we in the global economy? Nigeria must **DELIBERATELY** seek to increase its global economic influence.

	1980				2022		
	Nigeria	China	Indonesia		Nigeria	China	Indonesia
Share of Global Population	1.6%	22%	3.3%		2.7%	17.5%	3.5%
Share of Global GDP	0.6%	2.7%	0.6%		0.5%	17.7%	1.3%
Share of Global Export	-	1%	0.8%		0.2%	12%	1%
Share of Global Industrial Output	<1%	<2%	<1%		0.5%	25%	2%
Share of Global Poverty	2%	42%	6%		6.7%	5.1%	0.9%

**Nigeria must get the most of what it currently exports (crude oil, creatives, arts & entertainment) and build new capabilities**

## 2. Focus on raising productivity

### Agriculture

Raising agriculture productivity can address the rising food inflation but agriculture cannot flourish with insecurity – farms are in rural areas. The government must address insecurity.

- The government must commence a nationwide programme to mechanize agriculture. Investment in farmer education, extension services and access to inputs are important.
- Implement a forward integration model in agriculture – targeted supply of agri-products to industry.
- De-risk the agricultural value chain and ensure farmers have access to markets, technology and finance.

### Human Capital

- Establish skills development programmes targeted at equipping youths with skills of today and the future.
- Investment in education and healthcare are crucial.
- Implement business environment reforms to enhance the productivity of businesses.



### 3. Explore idle resources

#### **Domestic resource mobilisation**

Nigeria is a mineral-rich country endowed with limestone, clay, marble, gypsum, feldspar, gold and granite, among others.

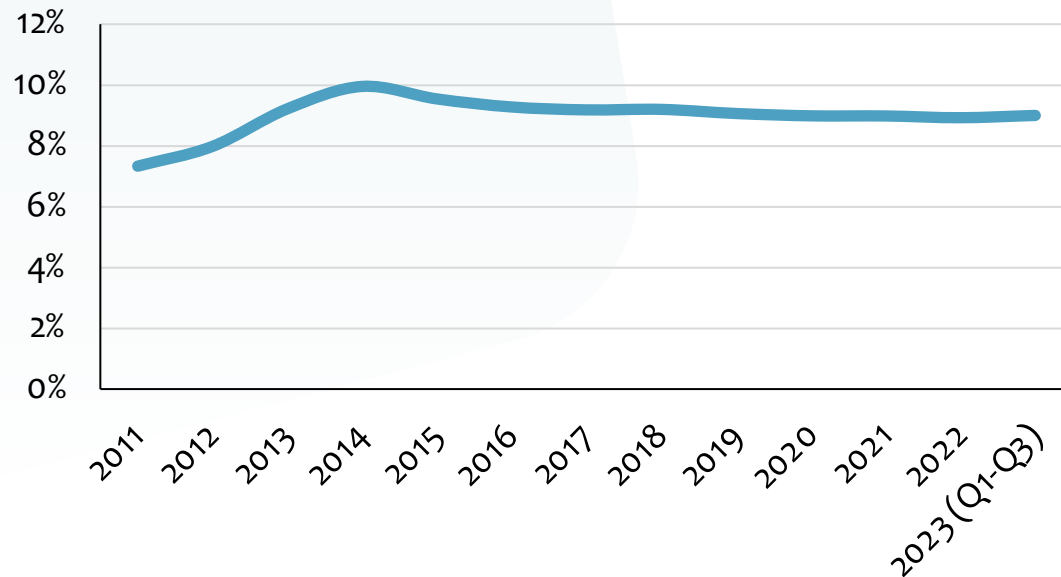
- The key goal should be to harness these resources by attracting private sector investments.
- Security is therefore crucial.
- Intensify efforts to address oil theft to increase oil production from the current ~1.3 million barrels per day



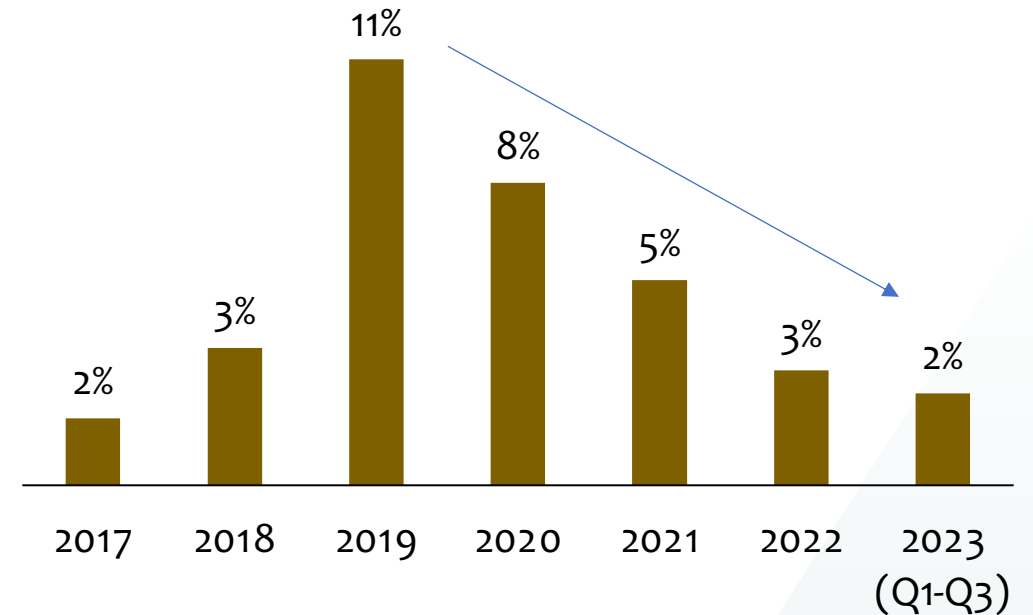
## 4. Nigeria must build industrial capabilities to be relevant

**Economic Emergency: Nigeria is not producing enough for local consumption and export**

Manufacturing output as a share of real GDP

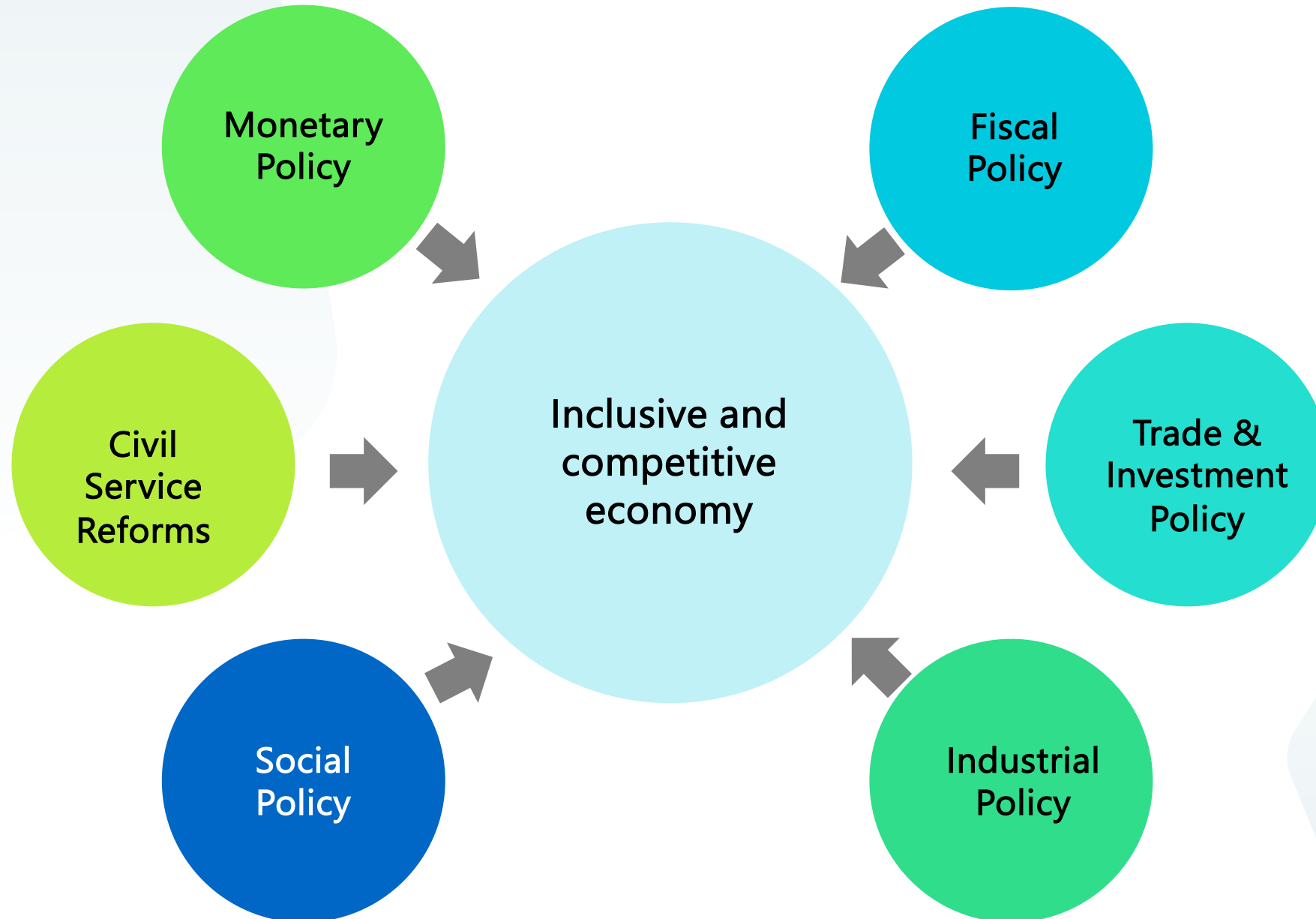


Manufactured goods as a share of total goods Exports



We must tackle problems of infrastructure deficit, inadequate power supply, create and IMPLEMENT an industrial and trade policy and incentivise manufacturing. Other sectors such as creatives, ICT, transportation, health and education are crucial. **Developing the manufacturing sector is a key solution in addressing Nigeria's foreign exchange challenges.**

## 5. We must align our policies and priorities





## 6. Social Interventions are required.

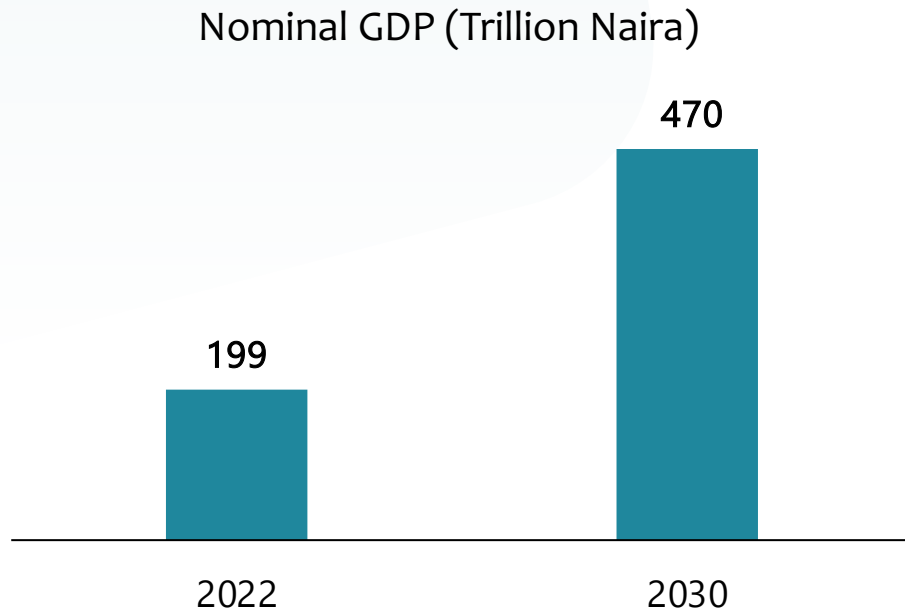
- Poverty and inequality are increasing, especially with the impact of the FX and subsidy reforms.
- Job creation should be prioritised but this alone cannot address inequality.
- The government must URGENTLY provide social support to the vulnerable.



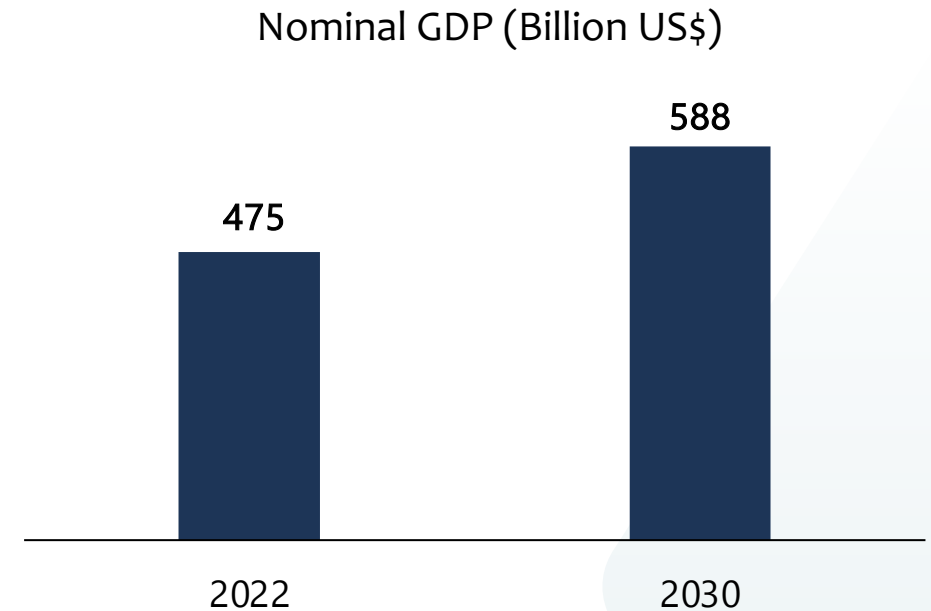
**What to expect in 2024**

# In the long term, the President's plan for Nigeria is a GDP growth of “not less than 6%”. We must unlock economic opportunities to increase the pie!

**Nominal GDP could more than double at an average real GDP growth of 6% in the next 7 years**



**With the 6% real growth and assuming a modest exchange rate of N800 per US\$, the size of the economy will still be far from US\$1 trillion by 2030**



# What to expect in 2024



INTERNAL

## Growth & Inflation

GDP Growth will be below the 2024 budget projection of 3.88%. Low purchasing power and high cost of doing business will slow growth. Prices will remain elevated in 2024.

## Fiscal Policy

Revenue will increase, but still below budgeted figures due to persistent oil theft. Borrowing costs are expected to increase as interest rates move upwards.

## Monetary Policy

Inflation targeting means raising interest rates and restricting money supply growth. The CBN will also cut back on ways and means.

## Foreign Exchange

FX pressure is expected to continue into 2024 due to high demand and limited inflows.



EXTERNAL

## Oil Price

Higher oil price above US\$85 per barrel raises pressure on petrol prices - more hardship on citizens and businesses – or government subsidies would continue (increase).

Subsidy is not gone!

## Foreign Investment

Foreign investment inflow, particularly FPIs will improve in 2024 relative to 2023 following high interest rates. FDIs will require medium to long term structural reforms.

## Remittances

Inflows are expected to increase in H1 2024 following the depreciation of the Naira. This is unlikely to influence the official rate.

# Conclusion

- **Nigeria's GDP growth prospect remains weak** in the short term. US\$1 trillion economy by 2030 requires crucial reforms on the business environment and key sectors.
- **Policy alignment:** Need for alignment of government policies and improved communication of reforms.
- **Budget Reforms are urgently required** to improve spending transparency and channel funds to priority areas. We need scrutiny of budget items and the government must cut unnecessary expenses. Oil theft must be curtailed.
- **Industrial Reforms:** Implement industrial, trade policies to improve the manufacturing sector, attract investment and grow non-oil exports. Dangote refinery will influence the performance of the manufacturing sector in the medium term.
- **Monetary Policy:** the CBN must recognize its limitation in addressing inflation and therefore be cautious with raising the MPR further – impact on growth. It must STOP Ways and Means beyond the statutory limit!
- **Social support:** Provide conditional cash transfers to the poor and vulnerable, working with state governments.

# Thank You



*The views in this report are those of the author and do not represent the views of the organizations he is affiliated to.*

# Contact Me!

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