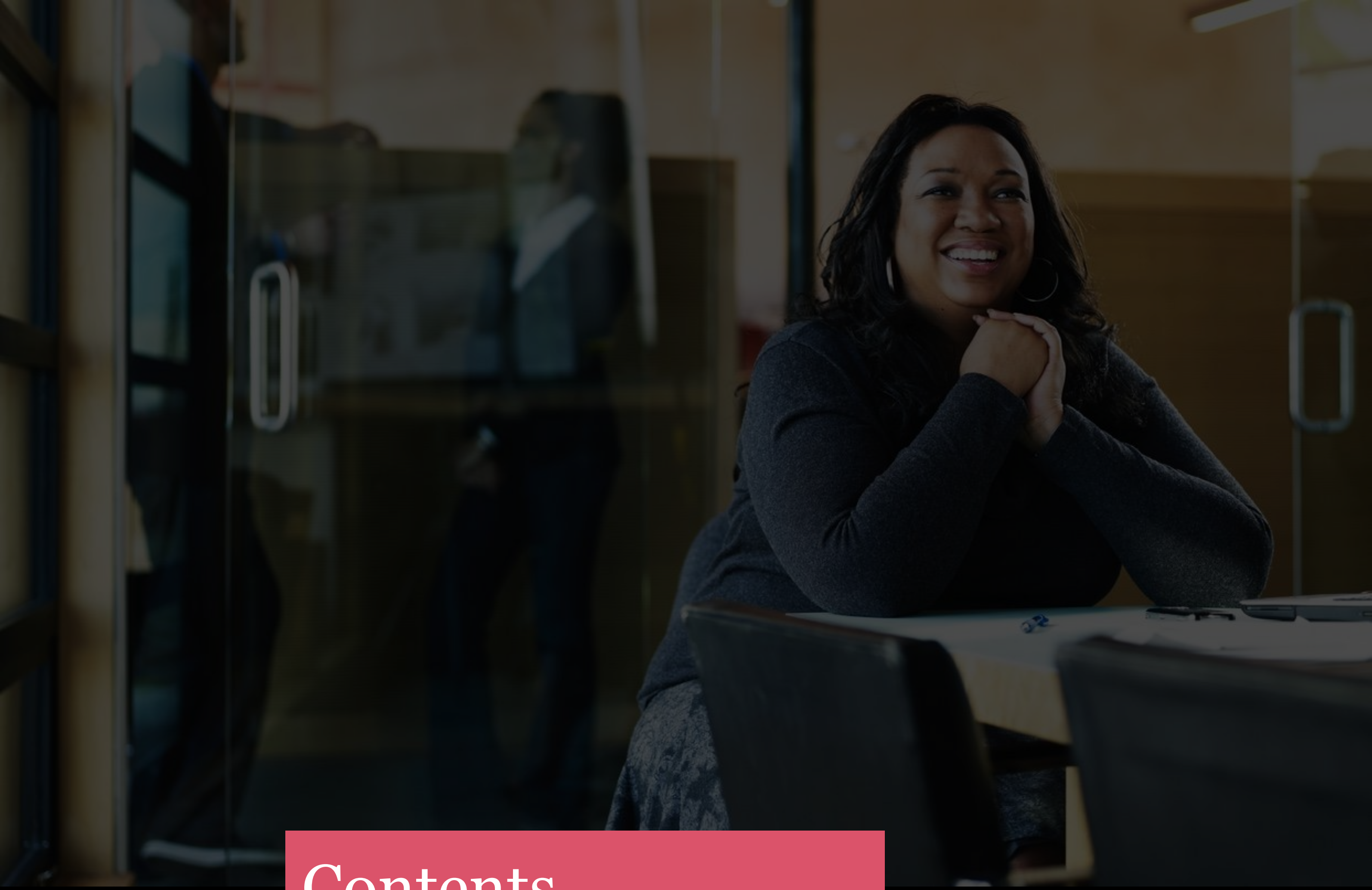
strategy&
Part of the PwC network

Nigeria economic outlook

Navigating economic reforms

June 2024



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Economic context

GDP Growth Rate

2.98%

Period	Y-o-Y% ▲	Previous
Q1 2024	**-1.7%**	2.31%

Exchange Rate- Official

₦1,433.8/$

Period	Y-o-Y% ▲	Previous*
May 31	**67.8%**	461.1/$

Exchange rate- Parallel

₦1,451.9/$

Period	Y-o-Y% ▲	Previous*
May 31	**47.5%**	₦762/$

Market Capitalisation

₦56.5tn

Period	Y-o-Y% ▲	Previous*
May 31	**85.2%**	₦30.3tn

Oil Production

1.25mbpd

Period	Y-o-Y% ▲	Previous
April	**5%**	1.19mbpd

FX Reserves

$32.6bn

Period	Y-o-Y% ▲	Previous*
May 31	**-7.9%**	$35.2bn

Monetary Policy Rate

26.25%

Period	Y-o-Y% ▲	Previous
May 21	**41.9%**	18.5%

Inflation Rate

33.95%

Period	Y-o-Y% ▲	Previous
May	**51.5%**	22.41%

Source: NBS, NUPRC, OPEC, CBN, FMDQ, NGX, Rate Cap, PwC Analysis

NB: The cut off date is as of May 31, 2024

Output dynamics

- **GDP grew by 2.98% in Q1 2024 compared to 2.31% recorded in Q1 2023.** The growth in Q1 2024 was due to performance in the financial and insurance sector (from 21.37% in Q1 2023 to 31.24% in Q1 2024) and mining and quarrying sector (from -3.96% in Q1 2023 to 6.30% in Q1 2024).
- **The financial and insurance sector was driven by the banking subsector (33.30%)**. Growth in the banking subsector is likely attributable to increased interest income, digital transactions, and forex revaluation gains.
- **Mining and quarrying sector was driven by the petroleum and natural gas (5.70%) subsecto**r. The growth in petroleum and natural gas subsector is likely attributable to increase in crude oil and natural gas output as well as growth in crude oil prices.

Price dynamics

- **Inflation increased from 22.41% in May 2023 to 33.95% in May 2024**. The drivers include food, utilities and transportation inflation. Food inflation increased to 40.6%, utility inflation at 29.6% and transport inflation at 25.6%.
- Official exchange rate depreciated by 67.8% from ₦461.1/$ in May 2023 to ₦1,433.8/$ in May 2024 on the back of CBN policy actions such as the directive to commercial banks to sell off excess FX, revision of IMTO guidelines, and the sale of dollars to BDCs among others**.**

Monetary dynamics

- **Price stability:** the CBN has embarked on monetary policy tightening with significant rise in MPR to 26.25%, commercial bank CRR to 45%, and merchant bank CRR to 14% among others. We anticipate that the CBN may continue to raise or maintain interest rates in the near term if inflationary pressures persist.
- **Foreign exchange management:** CBN unified all FX market segments in June 2023, enforced the Net Open Position limit and introduced new operational mechanisms for BDCs and IMTOs in January 2024, adjusted the remunerable Standing Deposit Facility cap in February 2024, and cleared all FX backlogs by March 2024, among others**.**
- **Financial stability and economic growth:** Increased capital requirements for banks in March 2024 to support economic growth. Commercial banks with international licenses now require ₦500 billion, national banks need ₦200 billion and regional banks require ₦50 billion to operate. Deadline to meet the increased capital requirements is March 31, 2026.

Source: NBS, Fitch, CBN, FMDQ, NGX, PwC Analysis

Setting the context: May 2023 – date (2/2)

Market dynamics

- The Nigerian Stock Exchange (NGX) recorded an increase of 85.2% in market capitalisation from ₦30.3 trillion in May 2023 to ₦56.5 trillion in May 2024. The increase was driven partly by the positive sectoral index performance of the oil and gas (124%), consumer goods (104%), insurance (88%), and banking (69%) sectors.
- The Nigeria 10-Year Government Bond Yield reached an all-time high of 19.30% in May 2024 from 14.55% in May 2023. The increase in bond yields is due to attractive rates on OMO and treasury bills, spurred by the rise in the MPR.

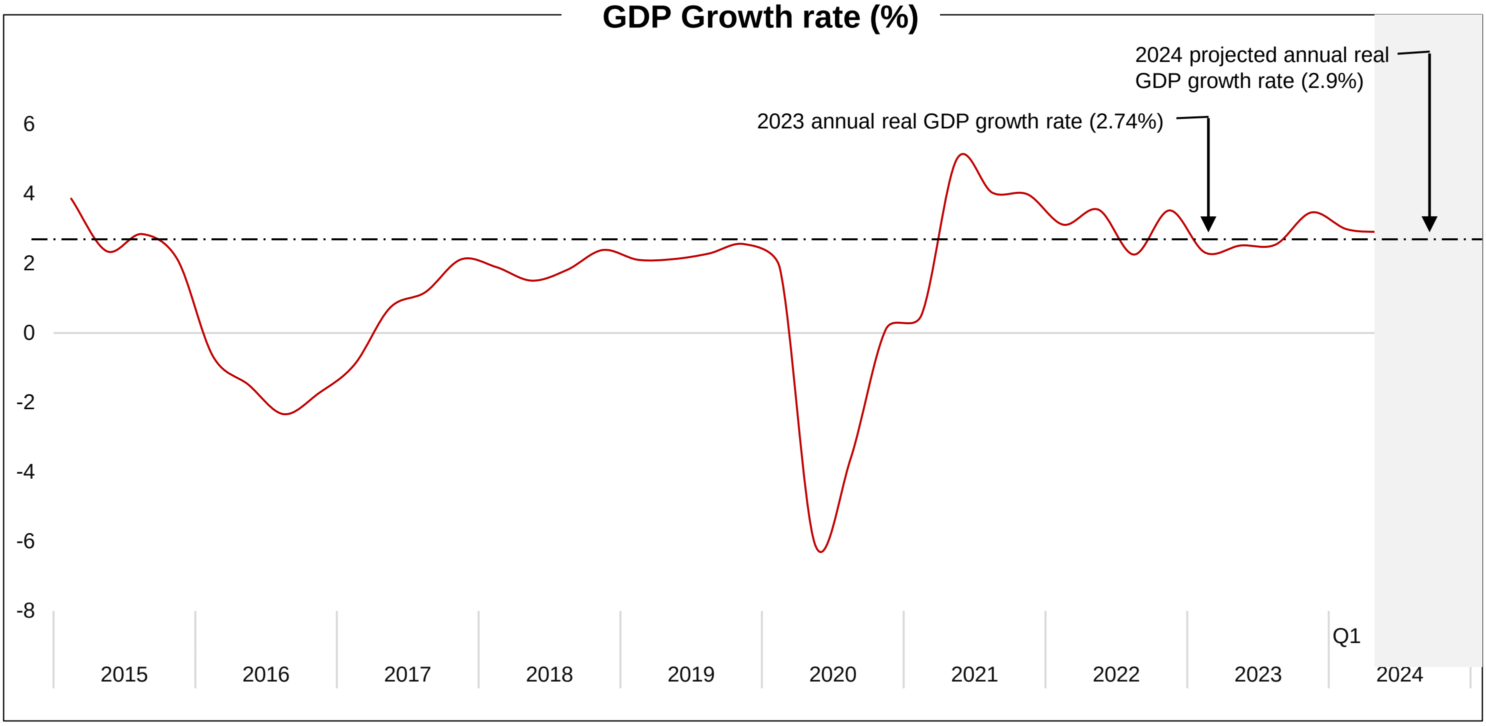
Fiscal dynamics

- Although average oil production grew by 5% from 1.19mbpd in May 2023 to 1.25mbpd in May 2024, it remains below the budgeted oil production of 1.78mbpd. The shortfall is due to increased occurrence of pipeline vandalisation and high cost of oil production.
- CIT revenues grew by 110% from ₦469 billion in Q1 2023 to ₦984.6 billion in Q1 2024**.** CIT collections was driven by mining and quarrying (130.3%), finance and insurance (4.9%), and information and communication (35.8%) sectors.
- VAT revenues grew by 101.7% from ₦709.6 billion in Q1 2023 to ₦1.4 trillion in Q1 2024**.** VAT collections was driven by manufacturing (37%), information and communication (37.4%), mining and quarrying (91.5%), and finance and insurance (85.4%) sectors.
- FAAC disbursements increased by 92.7% from ₦974 billion disbursed in May 2023 to ₦1.87 trillion in April 2024. The increase is driven by growth in distributable VAT (152.5%), statutory allocation (111.6%), and exchange rate difference revenue (94%).
- The Federal Government (FG) increased electricity tariffs by 240% from ₦66 to ₦225 per kilowatt-hour (KwH) for "Band A" customers in 2024. The rise in tariffs was due to the FG's plan to achieve market-based electricity pricing in the long-term and minimise subsidy payments in the short-term. Electricity subsidy payments in 2023 amounted to ₦628.6 billion.

In Nigeria electricity customers are classified in to 6 bands ranging from A to F based on the hours of electricity supplied.
Band A customers get a minimum of 20 hours of electricity supply daily.

Source: OPEC, NUPRC, NBS, Min. of Power, CBN, FMDQ, NGX, NMDPRA, PwC Analysis

GDP growth in Q1 2024 was driven by the financial & insurance and mining & quarrying sectors

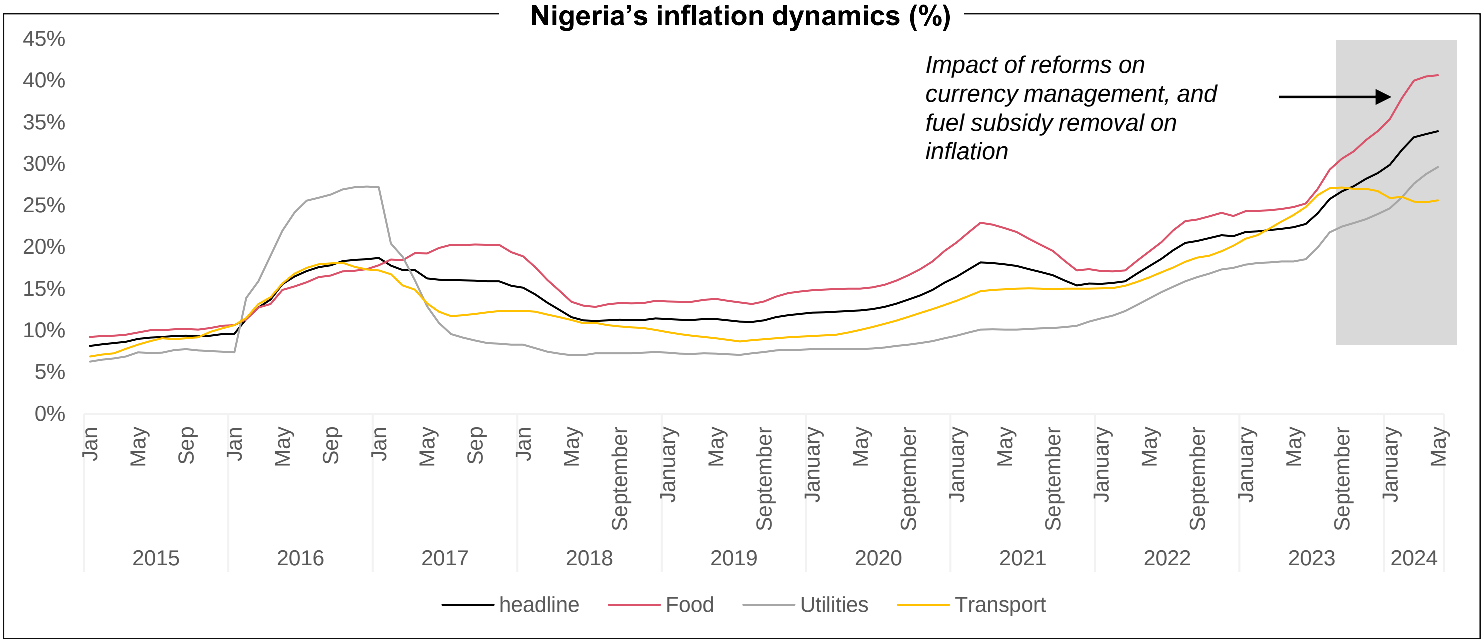


Key insights

- The financial and insurance sector was driven by the banking subsector (33.30%) while mining and quarrying sector was driven by the crude petroleum and natural gas (5.70%) subsector**.**
- GDP grew by 2.98% in Q1 2024 compared to 2.31% recorded in Q1 2023. The growth in Q1 2024 was due to performance in the finance and insurance sector (from 21.37% in Q1 2023 to 31.24% in Q1 2024) and mining and quarrying sector (from -3.96% in Q1 2023 to 6.30% in Q1 2024).

Source: NBS, PwC Analysis

Inflation rose to 33.6% in April 2024, driven primarily by increases in the costs of food, utilities, restaurant services, and transportation



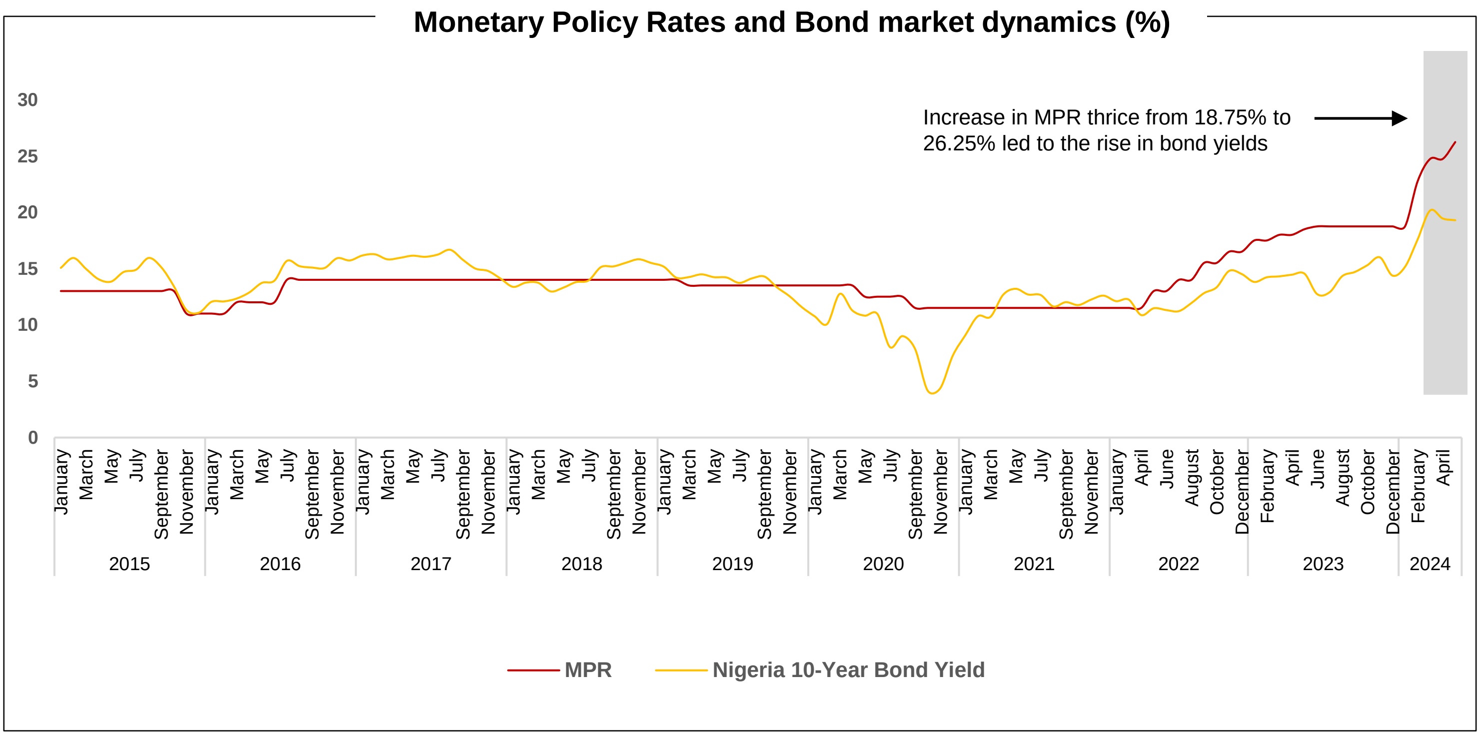
Key insights

- Headline inflation rose to 33.95% in May 2024 from 22.4% in May 2023, the highest since April 1996. The largest drivers of inflation were food (40.6%), utilities (29.6%), and transportation (25.6%).
- The rise in food inflation was due to low agricultural productivity, poor logistics and insecurity in the food producing regions of the country.
- Utilities inflation was due to the increase in price of rent, electricity, water supply and other fuels while transport inflation was due to increase in price of petroleum products including PMS.

Housing, water, electricity, gas and other fuel are classified as utilities

Source: NBS, PwC Analysis

CBN increased MPR by 775 basis points between May 2023 and May 2024 to manage inflation

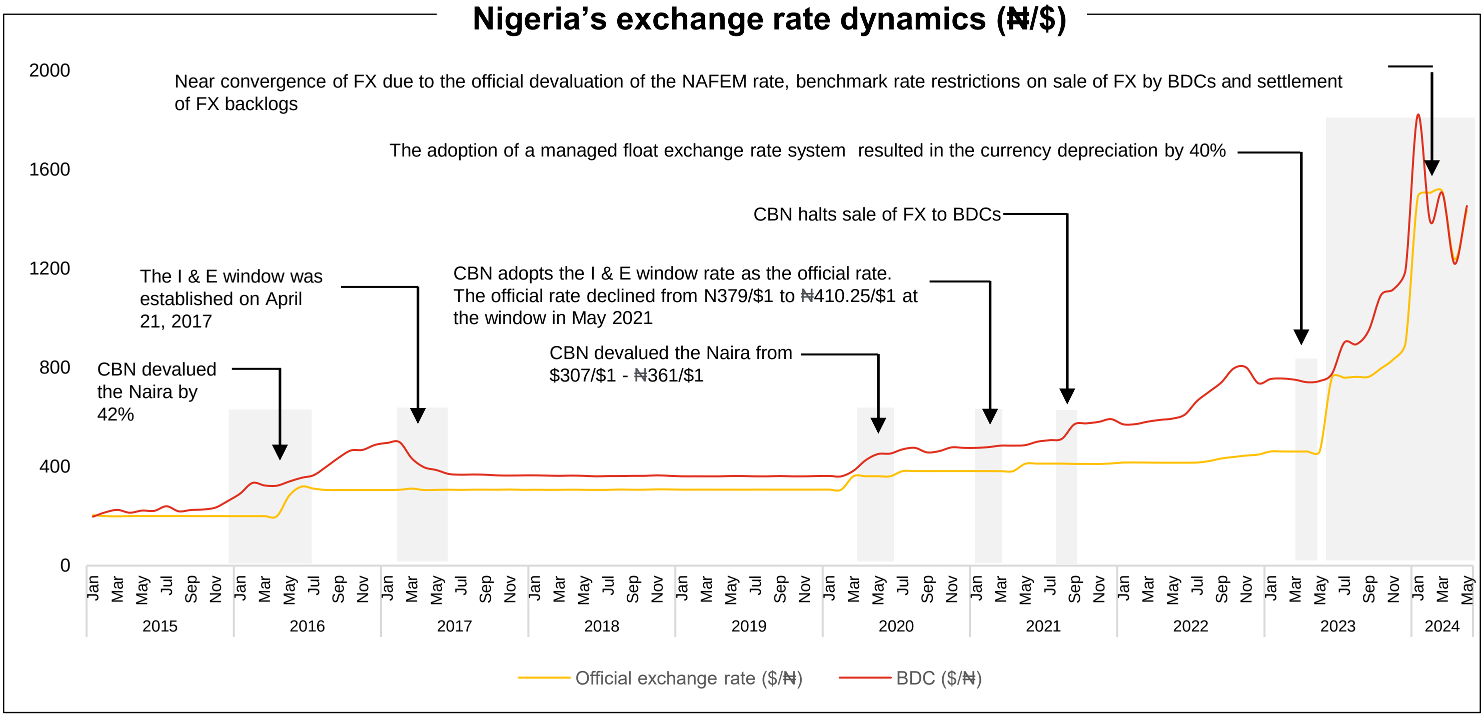


Key insights

- The Monetary Policy Rate (MPR) increased by 775 basis points from 18.5% to 26.25% between May 2023 and March 2024 to curb inflationary pressures. However, this may increase the borrowing costs for businesses.
- The Nigeria 10-Year Government Bond Yield increased to 19.30% in May 2024 from 14.55% in May 2023. The increase in bond yields resulted from attractive rates on OMO and treasury bills, spurred by the rise in the MPR.

Source: FMDQ, CBN, PwC Analysis

Naira depreciated by 67.8% between May 2023 and May 2024



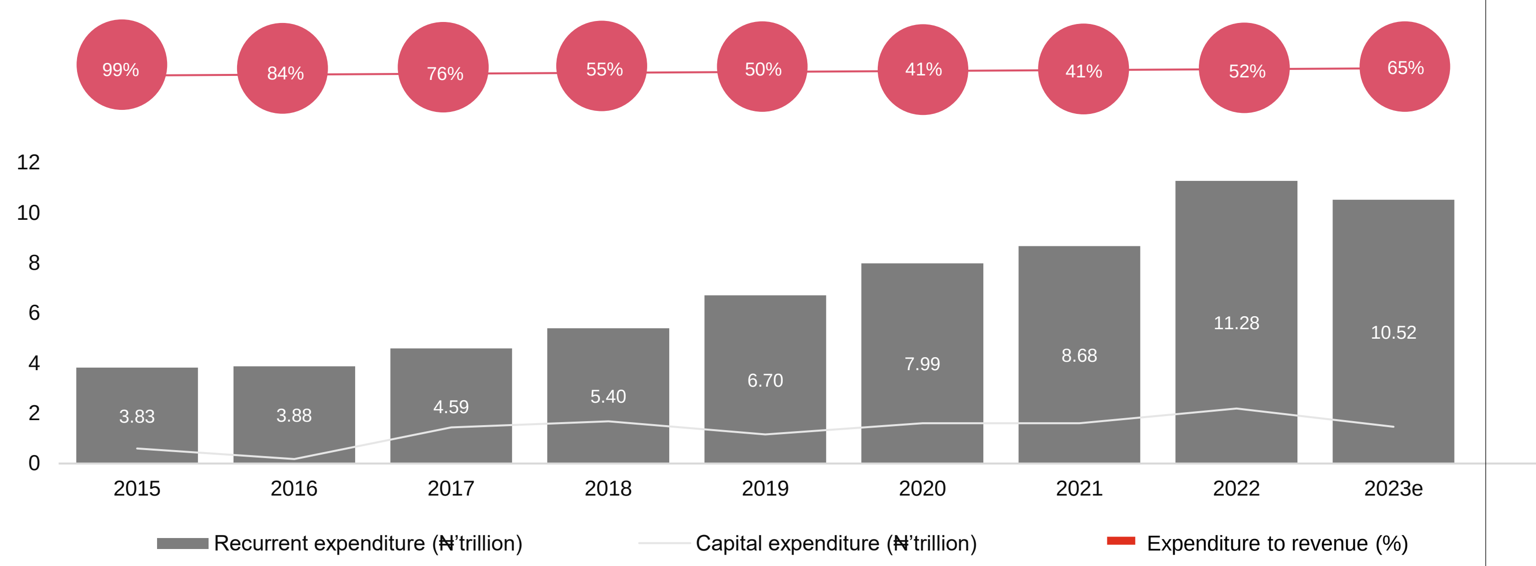
Key insights

- Official exchange rate depreciated by 67.8% from ₦461.1/$ in May 2023 to ₦1,433.8/$ in May 2024. The decline in the value of the Naira was partly due to the widening gap between dollar supply and demand.
- This gap was exacerbated by low FDI flows valued at US$183.97 million, which made up 16.9% of the total capital importation in Q4 2023.
- Interventions by CBN may cause the Naira to stabilise in the long-term. However, these interventions may become subdued in the absence of improved capital flows and export proceeds to the foreign reserves.

Source: Goldman Sachs, CBN, PwC Analysis

Government spending continues to remain high despite low revenue base

Government revenue & Expenditure dynamics

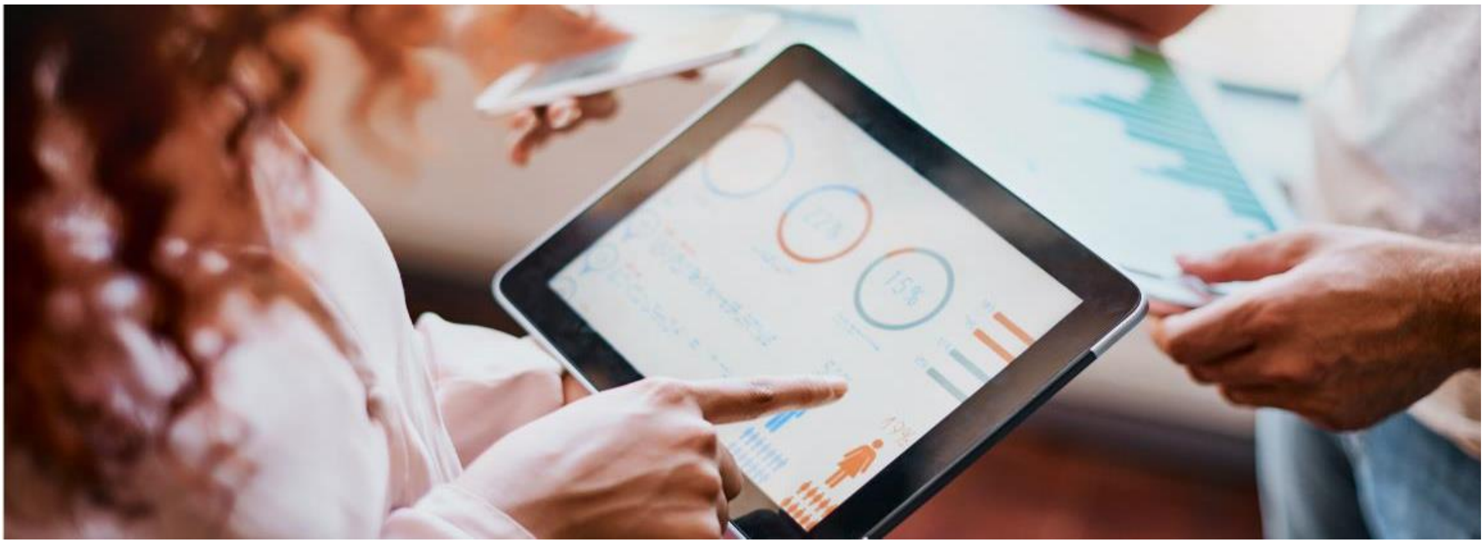


Key insights

- Government recurrent expenditure constituted an average of 84% between 2015 and 2023 of government expenditure due to the huge wage bill, increasing debt obligations and other operational costs.
- Revenue as a percentage of expenditure was 65% between January and September 2023 due to limited revenue generating capacity of the government. Total revenues as of September 2023 exceeded 2022 revenues by only 7% driven by increase in net oil (82%) and non-oil revenues (4%).
- Government spending to revenue may remain elevated in 2024 due to large government operating and debt servicing costs coupled with low revenues.

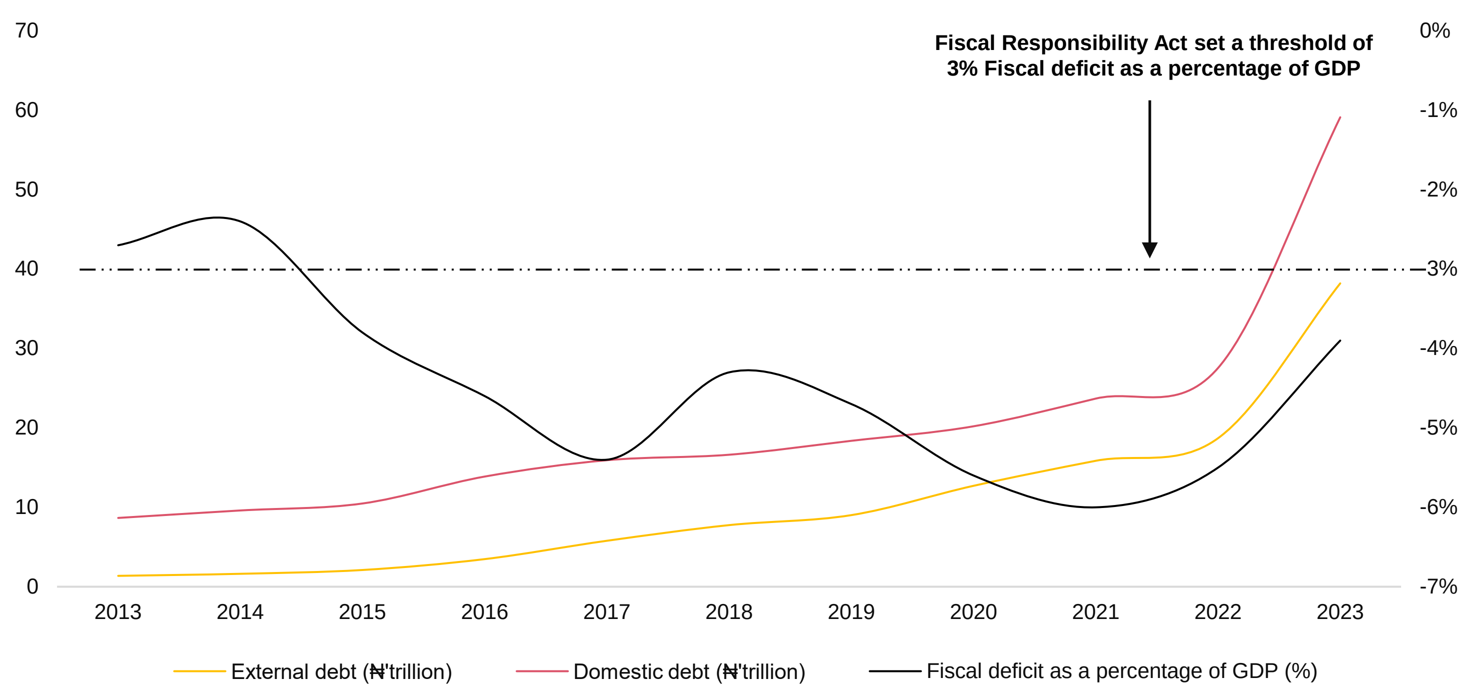
**e – Net Revenue and expenditure as of September 2023*
The data analysed include the net distributable revenue and the FGN budget expenditure and fiscal account as obtained from the budget implementation report

Source: BOF, PwC Analysis



Total debt stock may rise further in 2024 due to the proposed salary review of workers, increased pension obligations and higher debt service cost

The dynamics of debt

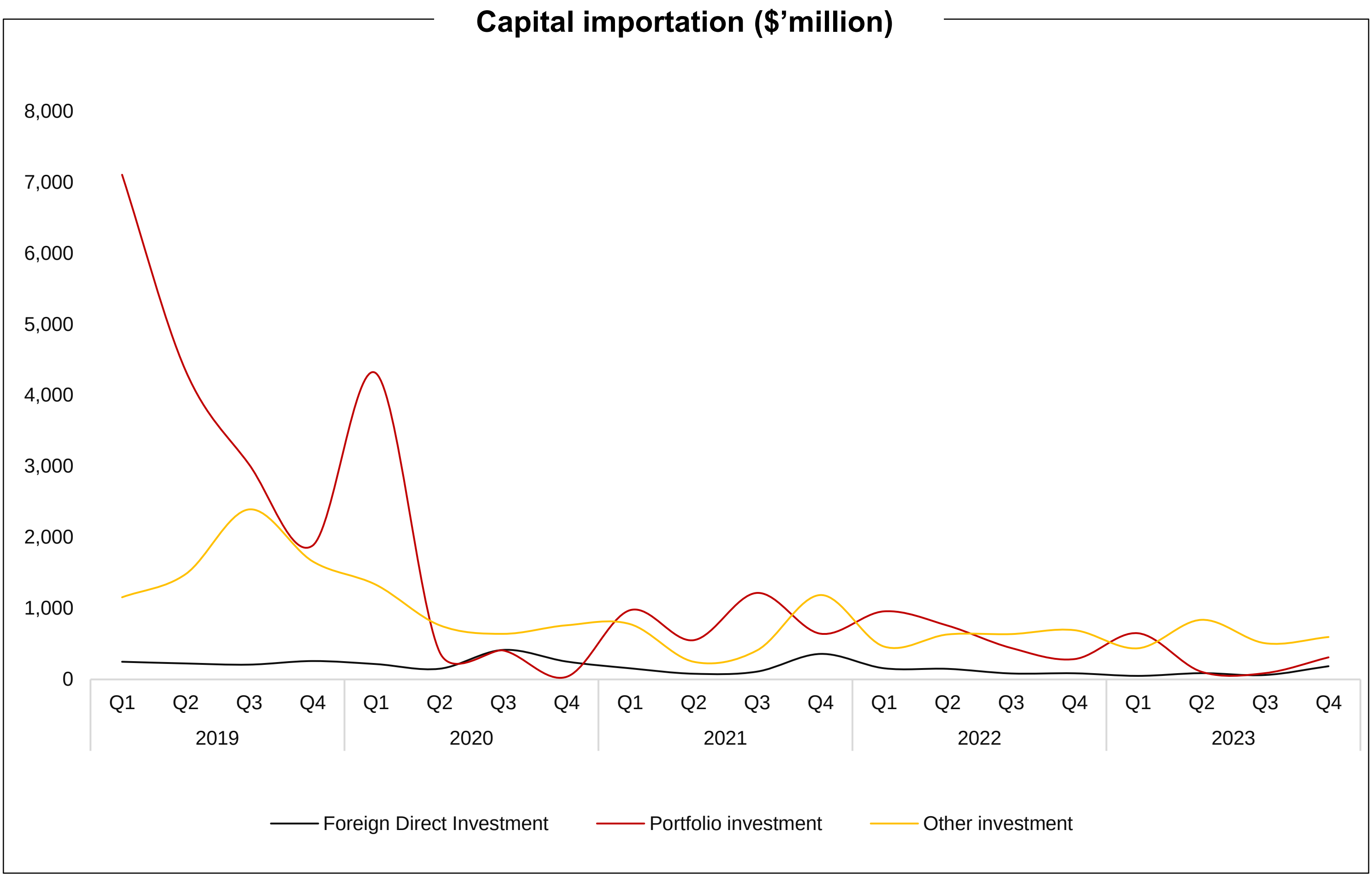


Key insights

- Total public debt grew by 144.1% to ₦121.67 trillion in Q1 2024 from ₦49.85 trillion in Q1 2023 due to naira devaluation and the securitisation of ways and means. The fiscal deficit to GDP of 6.1% recorded in 2023 remains above the Fiscal Responsibility Act (FRA) threshold of 3% consequently leading to a high debt profile.
- ₦4.9 trillion of the ₦7 trillion approved for the securitisation of ways and means as well as ₦4.5 trillion debt to fund the 2024 budget deficit was raised by the DMO as of May 2024.
- The continuous rise in debt from issuances of debt instruments without commensurate rise in revenue generating investments may crowd out private investment and worsen the country's debt profile in the long-term.

Source: BOF, DMO, PwC Analysis

Capital importation may likely improve due to the policy actions by the Central Bank

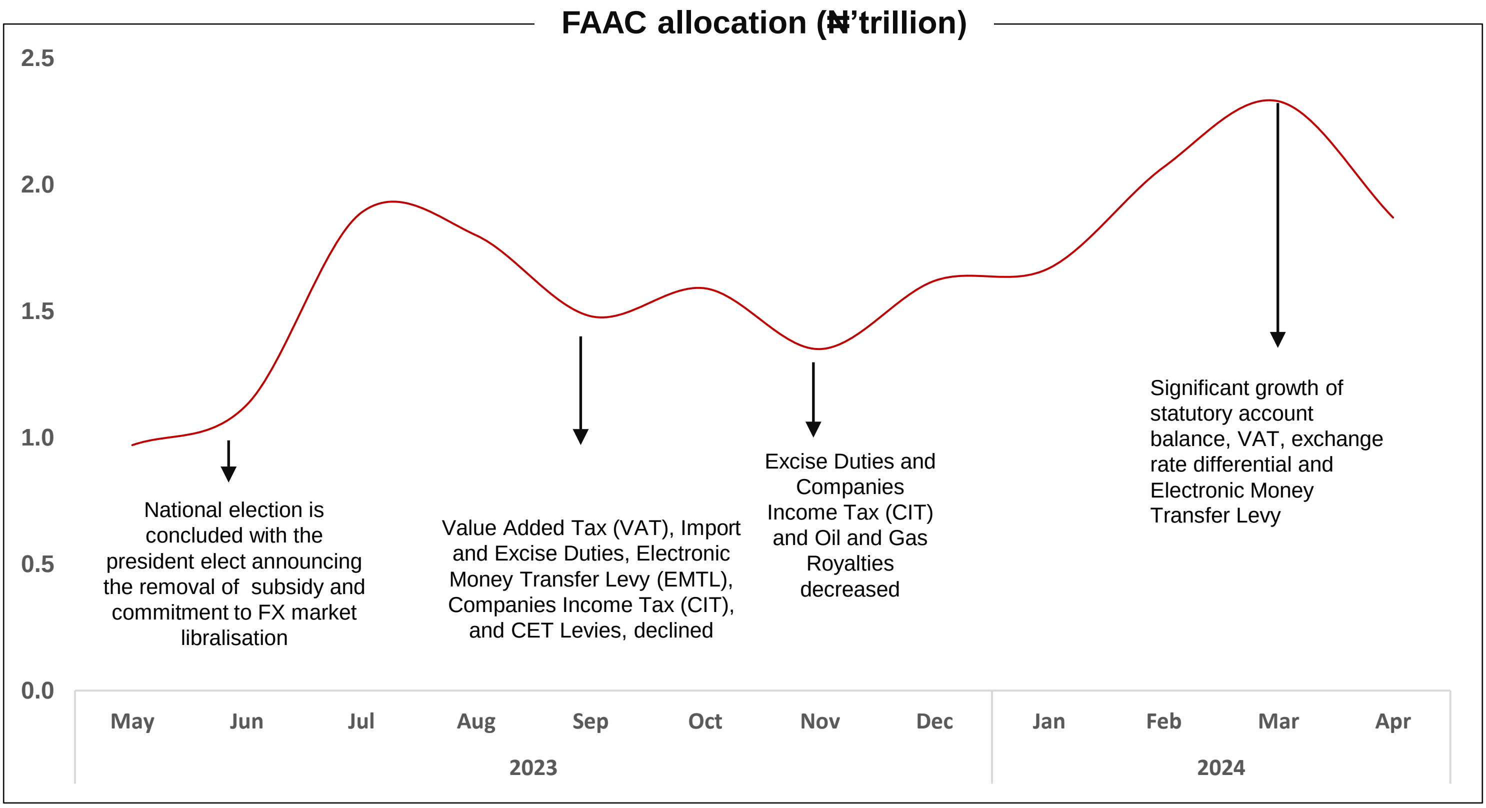


Key insights

- Capital importation increased by 6% to $1.1 billion in Q4 2023 from $1.0 billion in Q2 2023. The increase was driven by the growth in FPIs (189% increase from $106.9 million to $309.8 million) and FDIs (113.9% increase from $86 to $183.9) between Q2 and Q4 2023.
- Increase in FPIs was driven by increase in flows to money market instruments while foreign direct investments was driven by flows to equity investments.
- Capital importation may continue to improve in 2024 due to the policy actions by the CBN aimed at rebuilding investor confidence. Some of the actions implemented by the CBN include the settlement of FX backlogs, increase in MPR to 26.25% to maintain price stability, etc.

Source: NBS, PwC Analysis

FAAC disbursement increased by 92.8% between May 2023 and April 2024 driven by fuel subsidy savings and FX revaluation gains

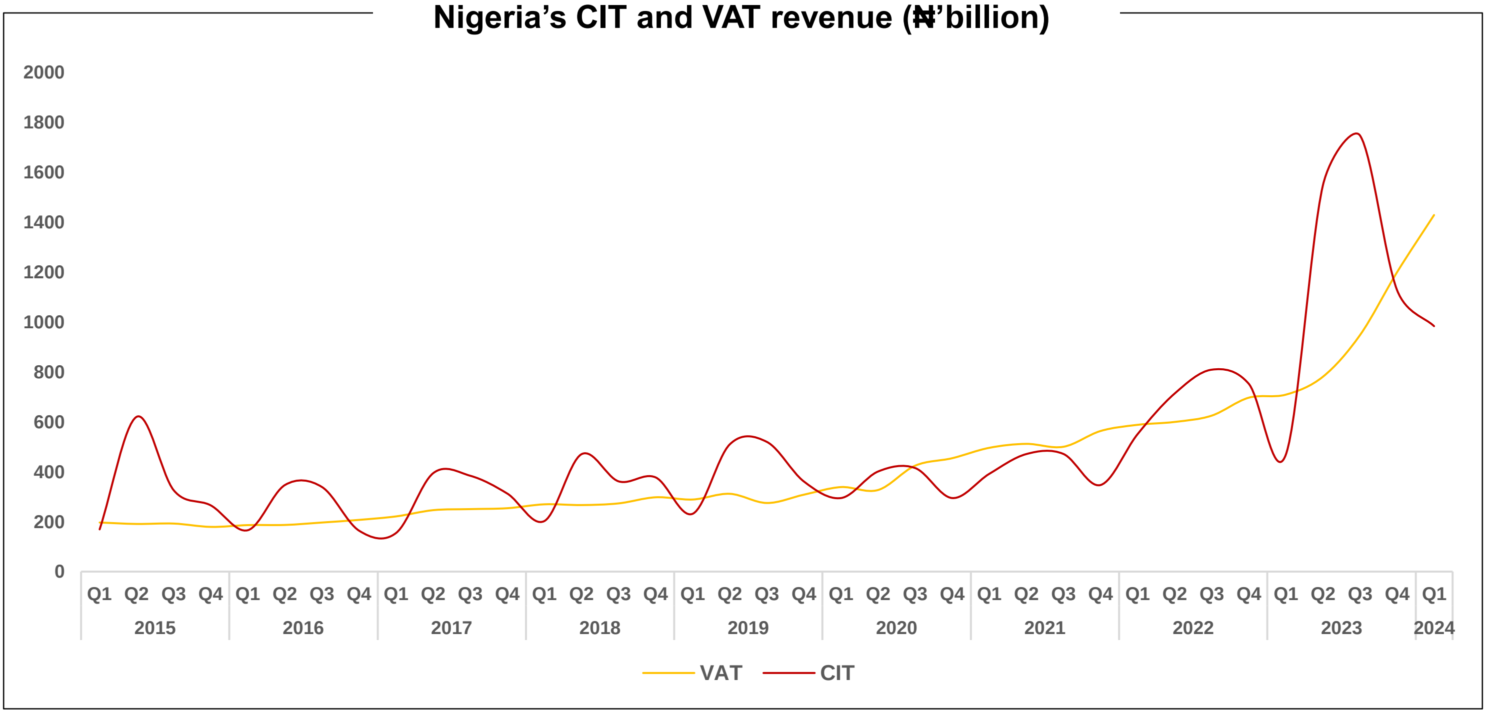


Key insights and outlook

- Total FAAC allocations increased by 91.3% from ₦976 billion in May 2023 to ₦1.87 trillion in April 2024. The increase is driven by growth in distributable VAT (152.5%), statutory allocation (111.6%), and exchange rate difference revenue (94%).

Source: NBS, PwC Analysis

CIT and VAT grew by over 100% driven by mining and quarrying, financial services and ICT sectors



Key insights

- Total Company Income Tax (CIT) collection on a year-on-year basis increased by 109.93% from ₦469.01 billion in Q1 2023 to ₦984.61 billion in Q1 2024 while the total value added tax (VAT) collections increased by 101.65% from ₦709.59 billion in Q1 2023 from ₦1.43 trillion in Q1 2024.
- The CIT collections in Q1 2024 was driven by mining and quarrying (20.94%), financial and insurance (18.73%) and information and communication (12.56%).
- Increase in VAT was driven by local payments (₦663.18 billion), foreign VAT payments (₦435.73 billion) and import VAT (₦332.01 billion).

Source: NBS, PwC Analysis

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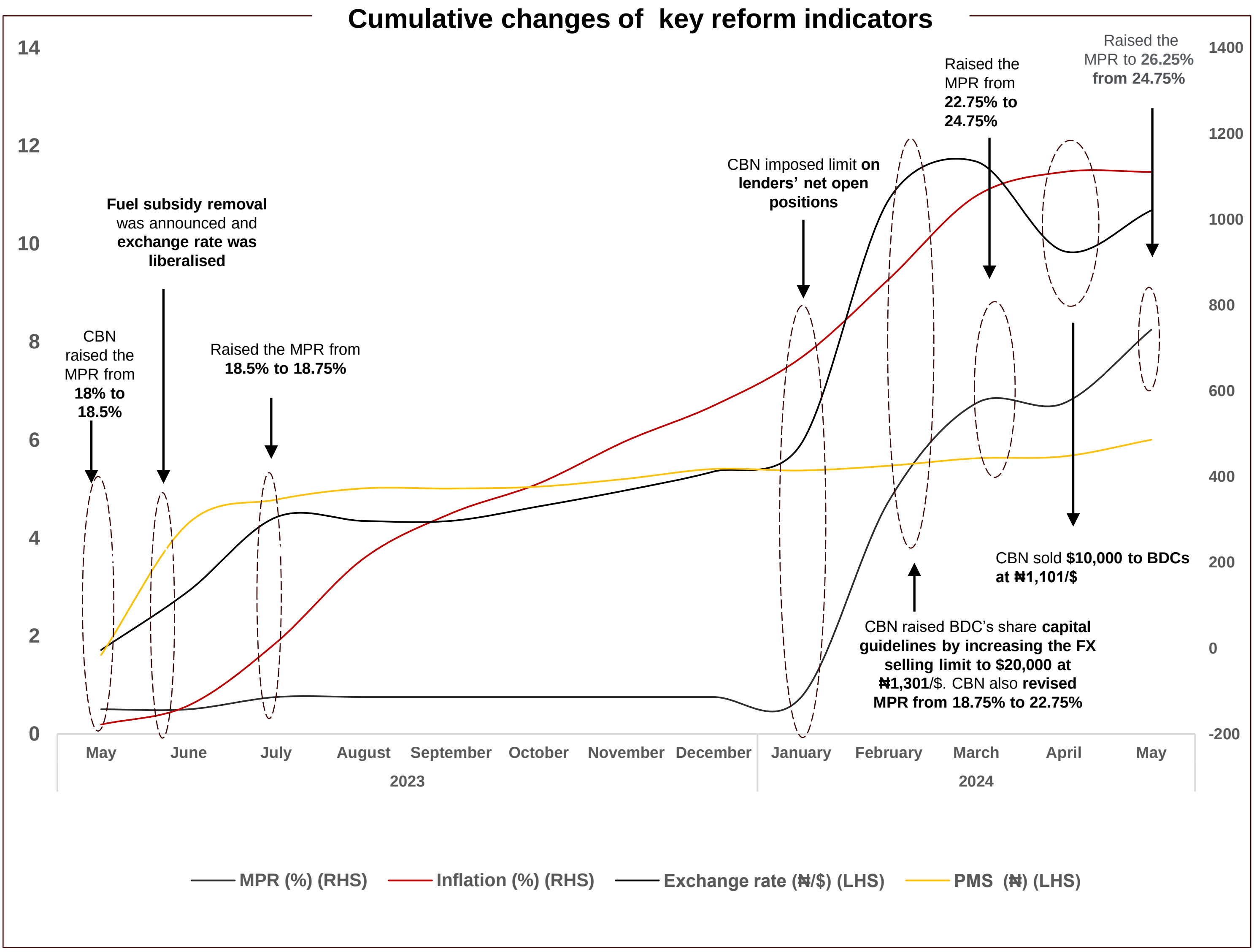
A year of reforms



Key insights

- Between May 2023 and May 2024, the average PMS price surged by 211% due to fuel subsidy removal, the MPR increased by 775 basis points to combat inflation, which rose from 22.4% to 33.69%, and the naira depreciated by 67.8% following FX market liberalisation.
- The changes in the key reform indicators imply that the economy may face slower growth, reduced consumer purchasing power, and increased cost of living, necessitating robust policy interventions to stabilise the economy.

Source: NBS, CBN, PwC Analysis

Nigeria is undergoing critical reforms to drive economic growth and stability

Fiscal reforms

- **Deregulation of PMS:** To reduce government spending and redirect resources to other critical sectors, PMS subsidy was removed in May 2023, resulting in an increase in the price of PMS from ₦187 to ₦630. However, IMF reported that PMS is still sold at a price lower than the market price, effectively maintaining a partial subsidy.
- **Debt reduction and restructuring strategy:** DMO securitised ₦4.9 trillion (67% of ₦7.3 trillion) ways and means advances at 9% interest (instead of 21%) over a tenor of 40 years. Improved fiscal discipline from refinancing of debt service obligations has led to increased savings for government.
- **Efficient and equitable tax system and revenue generation:** Major tax reforms are underway to harmonise tax laws and enhance revenue collection. Some of the recommendations include new national tax and borrowing policies, exemptions for 95% of the informal sector, and a focus on tax enforcement targeting the middle class & elites, among others.

Monetary reforms

- **Liberalisation of foreign exchange market:** The CBN liberalised the foreign exchange market in June 2023 to achieve price discovery**.** Other actions and interventions to achieve foreign exchange stability include; clearance of FX backlogs, removal of restrictions on 43 banned items from accessing FX, BDC regulations, among others.
- **Orthodox monetary policy:** CBN is exploring orthodox monetary policy by gradually increasing the MPR up to 26.25% April 2024 (from 18.5% in June 2023), among other reforms. The monetary authority aims to address inflationary pressures in line with its objective to ensure price stability.

Sectoral reforms

- **Power sector:** The Electricity Act aims to address Nigeria's energy challenges by tackling annual economic losses of $26 billion (₦10 trillion) and expanding access to electricity for 85 million underserved Nigerians. Additionally, NERC has introduced a market-reflective tariff of ₦225/kWh ($0.17/kWh) for customers who receive a minimum of 20 hours of daily electricity supply, paving the way for a more sustainable and efficient power sector.
- **Banking sector:** The CBN Increased capital requirements for various categories of banks to support economic growth. Commercial banks with international licenses now require ₦500 billion, national banks need ₦200 billion and regional banks require ₦50 billion among others to operate.
- **Oil and gas sector:** Three executive orders issued which cover: tax incentives, exemption, remission, local content compliance requirements, among other reforms. These orders streamline the contracting process, reduce the cycle time to six months, and enhance local content requirements without compromising cost-efficiency.
- **Agriculture sector:** The government embarked on dry season farming, distribution of rice, fortified crops, seeds, fertilisers, and improved farmland security to combat food inflation and enhance production.

Source: IMF, NBS, NERC,DMO, PwC Analysis

The reforms have yielded positive outcomes

Government revenue

- FAAC disbursements increased by 91.3% from ₦976 billion disbursed in May 2023 to ₦1.87 trillion in April 2024.
- The increase was driven by distributable VAT, statutory allocation and exchange rate difference revenue.

Country credit rating

- Fitch Ratings revised its outlook on Nigeria's Long-Term Foreign-Currency Issuer Default Rating (IDR) from Stable to Positive.
- The revision was due to exchange rate and monetary policy reforms, reduction in fuel subsidy payments, and scaleback of government financing by CBN.

Oil and non-oil exports

- Oil exports grew by 200.9% to ₦15.5 trillion in Q1 2024 from ₦5.15 trillion recorded in Q1 2023.
- Non-oil exports also grew by 38.5% to ₦1.8 trillion in Q1 2024 from ₦1.3 trillion recorded in Q1 2023.

Capital importation

- FDI's grew 114% from $86 million recorded in Q2 2023 to $184 million in Q4 2023.
- Similarly, FPI's increased to 190% from $106.9 million in Q2 2023 to $309.8 million in Q4 2023.

Source: NBS, Fitch Ratings, CBN, PwC Analysis

Pressure points

Naira devaluation

- The naira depreciated against the dollar by 67.8% from an average of ₦461.1 in May 2023 to ₦1,433.8 in May 2024.
- The depreciation took effect despite foreign exchange market reforms by CBN to achieve price discovery and attract liquidity to the market.

↓

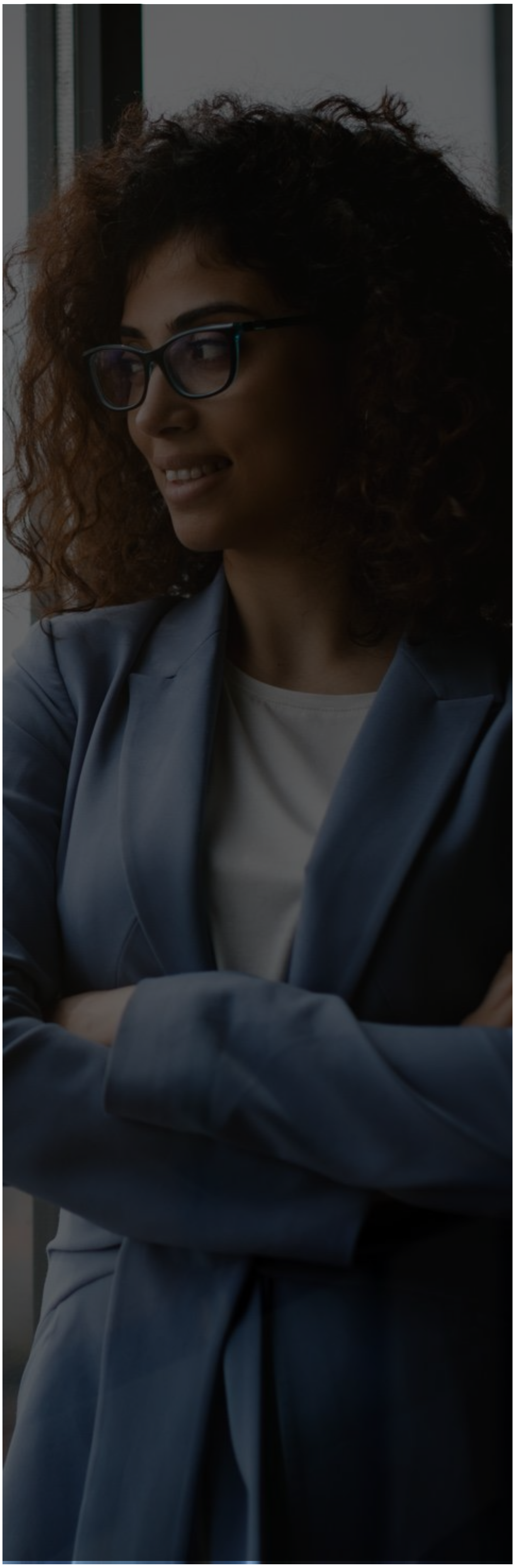
Rising inflation

- The rise in inflation driven by food (40.6%), utilities (29.6%), and transport (25.6%) continues to erode purchasing power of households and businesses.
- CBN's reform actions has not yet tapered the continuous rise of headline inflation, which was 33.95% in May 2024**.**

↑

Rising interest rate

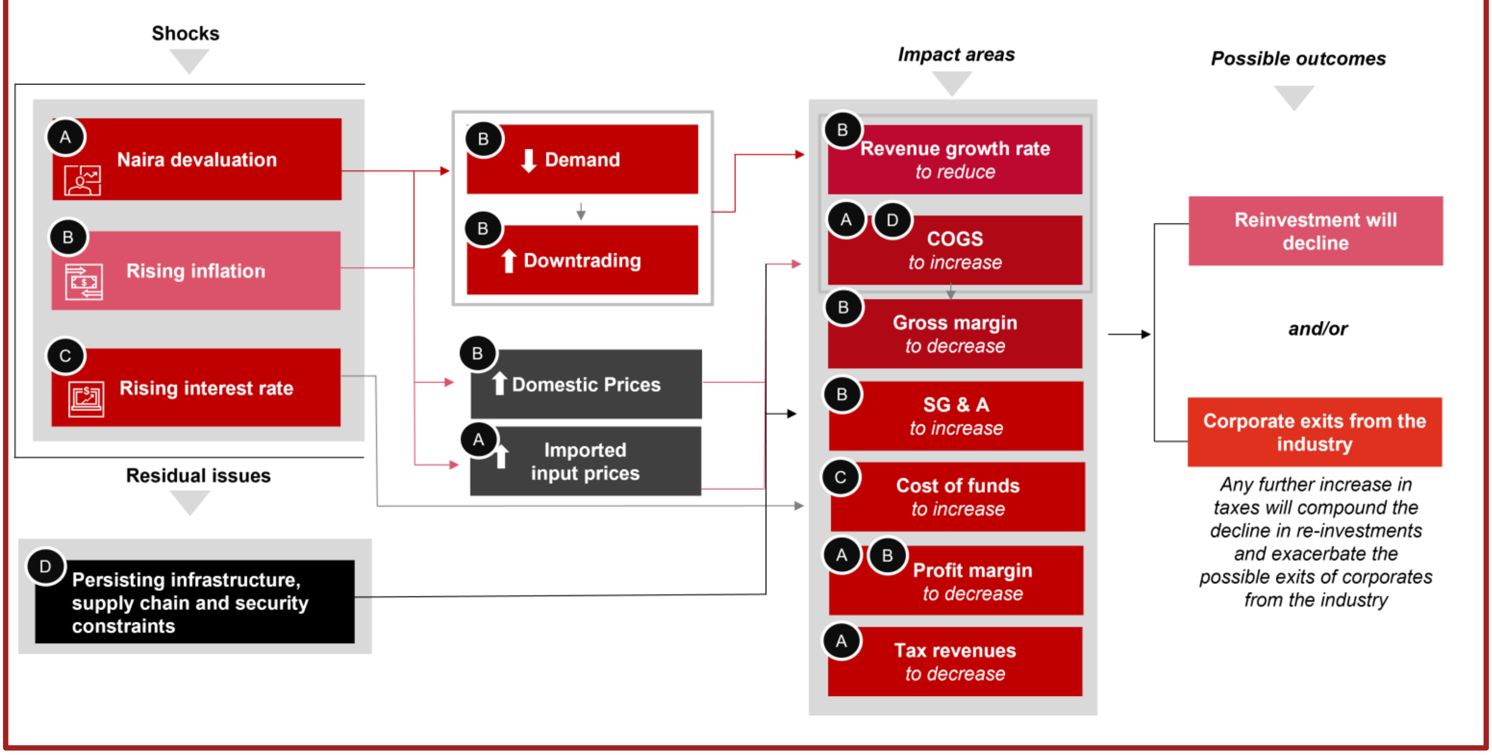
- The Monetary Policy Rate (MPR) was raised by **775 basis points between May 2023 and 2024** to address rising inflation.
- Although the rise in MPR may attract more investors to the fixed-income market due to higher yields, it has **negatively impacted borrowing cost for businesses.**



Sources: NBS, CBN, PwC Analysis

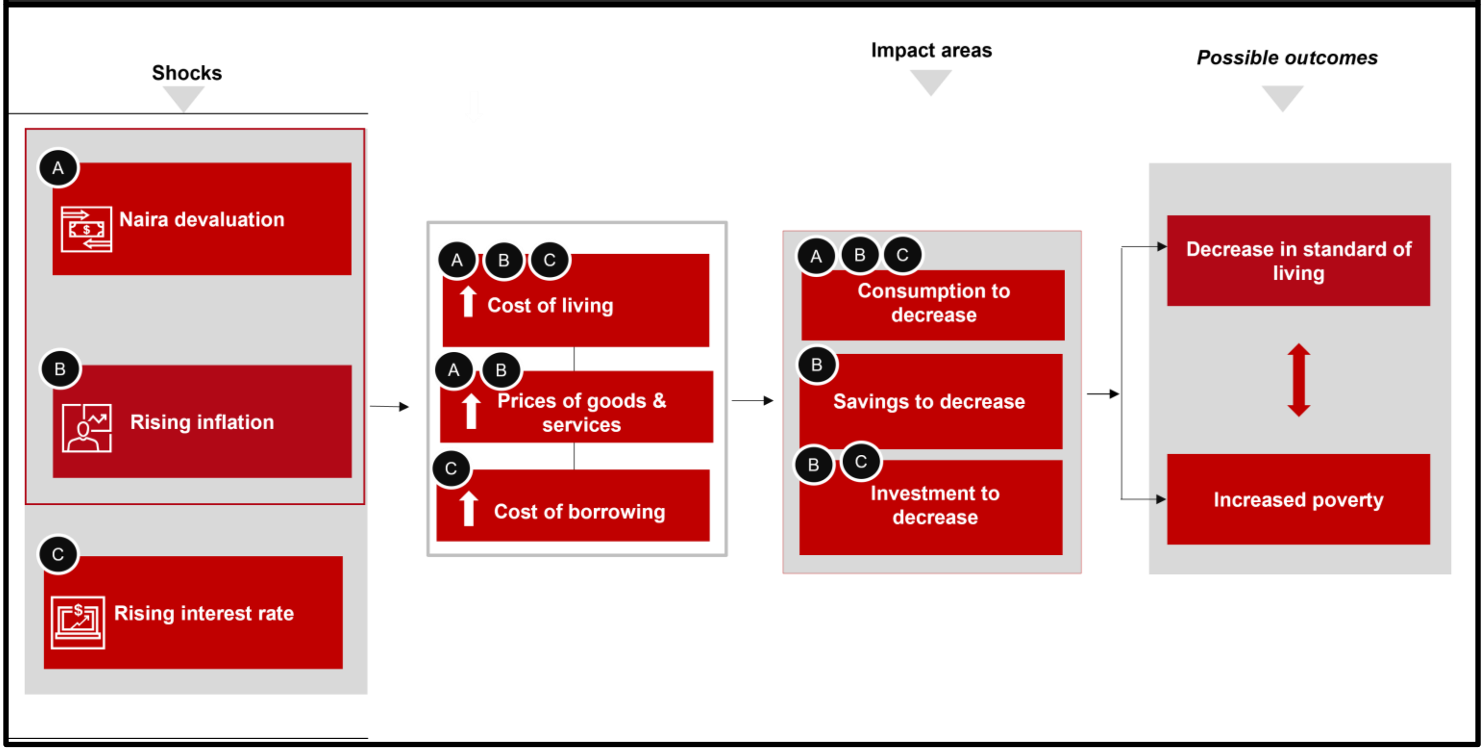
The impact of pressure points on businesses may lead to a decrease in reinvestment and/or corporate exits from the industry

Impact of pressure point on businesses



The impact of pressure points on households may lead to a decrease in standard of living and higher poverty levels.

Impact of pressure point on households



Sources: NBS, CBN, PwC Analysis

Impact area:	Drivers: (Non-exhaustive)
Consumption	• Inflation and exchange rate pressures have reduced real value of household disposable income and consumption expenditure.
Savings	• Household savings may decline as individuals prioritise consumption and debt repayment over saving.
Investment	• Investments may decline due to reallocation of resources to consumption. The decline may be due to high inflation and rising cost of borrowing.

Source: NBS, Fitch Ratings, CBN, PwC Analysis

Impact area:	Drivers: (Non-exhaustive)
Revenue growth to reduce	• Inflation may erode revenue by reducing the purchasing power of consumers. This leads to low sales for businesses, which consequently impacts business revenue negatively.
COGS to increase	• Higher production costs, import costs, and raw materials costs from the inflationary and exchange rate pressures are passed on to businesses. • Naira depreciation is expected to drive up the cost of imported raw materials.
SG&A expenses to increase	• The general rise in prices due to the removal of subsidy may increase SG&A expenses such as marketing, logistics, utilities etc.
Finance cost to increase	• High interest rates may lead to higher borrowing costs for businesses, making it more expensive to fund operations and investments.

Source: NBS, Fitch Ratings, CBN, PwC Analysis

3

Key considerations for government and businesses

Three broad considerations for the government

Structured and focused policy

- Prioritise macro stability by addressing security, social and pressure points of inflation and exchange rate pressures.
- Mobilise capital to drive growth through market focused policies, intensification of investment promotion.
- Make short- and long-term sectoral bets focused on exports, domestic substitution and job creation.
- Government must drive fiscal prudence by optimising spending on capital projects with the highest ROI, rationalise public service spending and improve revenue diversification and collection efficiency.

Policy flexibility

- Decide when and how to introduce, defer, sequence, or stagger different policies based on current economic and social conditions.
- Adopt scenario planning before any major economic reform is implemented to avoid unwarranted policy reversals e.g. cyber security levy.
- Embed contingency plans within any economic policies during the planning phase.

Mitigation

- Implement intervention funding schemes to support businesses with low-interest loan programs or credit guarantees to ensure businesses have access to affordable financing despite high market interest rates.
- Create social safety net programs such as unemployment benefits and workforce development programs to absorb the job losses from business exits due to the economic pressure points.
- Government may reconsider any planned increase in selected taxes to alleviate the financial challenges and unlock liquidity of certain businesses being impacted by the economic pressure points.

Source: PwC Analysis

To manage costs, businesses must consider their strategic priorities, operating model, and cost structure

Clear-eyed strategy

Revisit your strategy and be clear on your must-haves to win in the future regardless of any economic scenario.

Double down on differentiating capabilities

Develop differentiating capabilities system that gives you right to win in any economic environment.

Engage and accelerate the cultural evolution

Actively engage the organisation to define the required behaviors to build on cultural strengths and own the actions to shape the future

Radically transform cost structure

Re-visit your entire cost structure to establish short, mid, and long term actions to fundamentally adjust for the future.

Reimagine your operating model

Re-imagine how you organise and collaborate – using technology accelerators and strengthening resilience.

Source: PwC Analysis

4

Economic outlook

	Outlook
Broad economic growth outlook	• GDP may grow marginally by 2.9% on the back of sustained policy reforms although growth prospect may be limited by elevated economic pressures.
Fiscal outlook	• Fiscal sustainability concerns may remain slightly elevated, given debt servicing costs (89% of the budgeted fiscal deficit is to be financed by new borrowings).
Prices outlook	• PwC projects a marginal decline in inflation to 29.5% by year end, balancing the effects of reforms, policy actions, external pressures and food prices; particularly in the second half of the year.

Source: PwC Global, PwC Analysis

PwC Economics team proposition

Help our clients understand macroeconomic, megatrends, and ESG developments that are shaping local and global landscape.

01

Measure and assess our client's impact on the economy, competition and markets.

02

03

Help our client make decisions on investments and risks.

04

Help our client plan for future macroeconomic, megatrend and sustainability scenarios.

01

- Economic Impact Assessment (EIA)/Socio-Economic Impact Assessment (SEIA)
- Regulatory Impact Analysis (RIA)
- Competition economics
- Policy analysis and development

02

- Macroeconomic and political research
- Market entry and sectoral analysis
- Country and industry risk assessments

03

- ESG scenario planning
- Economic and political scenario planning
- Industry and macroeconomic modelling

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