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Nigeria Economic Outlook

Seven trends that will shape the Nigerian economy in 2024

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Content

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Setting the context

Macroeconomic dashboard

GDP Growth Rate

2.54%

Period	Y-o-Y% ▲	Previous
Q3 2023	**13%**	2.25%

Exchange Rate- Official

₦900.3/$

Period	Y-o-Y% ▲	Previous*
Jan 2024	**95.7%**	460.1/$

Exchange rate- Parallel

₦1,357/$

Period	Y-o-Y% ▲	Previous*
Jan 2024	**60%**	₦740$

Market Capitalisation

₦52.4tn

Period	Y-o-Y% ▲	Previous*
Jan 2024	**83.2%**	₦28.6tn

Oil Production

1.33mbpd

Period	Y-o-Y% ▲	Previous
Dec 2023	**8.13%**	1.23mbpd

FX Reserves

$33.3bn

Period	Y-o-Y% ▲	Previous*
Jan 2024	**-17.4%**	$40.3bn

Monetary Policy Rate

18.75%

Period	Y-o-Y% ▲	Previous
July 2023	**34%**	14%

Inflation Rate

28.92%

Period	Y-o-Y% ▲	Previous
Dec 2023	**36%**	21.34%

NB: The cut off date is as of January 24, 2023

Source: NBS, CBN, FMDQ, NGX, Aboki FX, PwC Analysis

Setting the context: 2023 in retrospect

Output dynamics

- **The GDP grew marginally by 2.54% in Q3 2023 from 2.25% in Q3 2022.** The marginal growth of the GDP was due to the weak performance of the transportation and storage (-35.85%), and the mining and quarrying (-1.96%) sectors.
- **Despite the marginal performance, the financial services (28.21%), information & communication (6.69%) and utilities (5.2%) sectors recorded the highest growth rates.**
- The growth in the financial services sector was driven by the banking subsector which grew by 29.66% due to increased interest income & digital transactions, and forex revaluation gains. The telecoms sector (7.74%) drove the growth of the information and communications sector. While the water (11.93%) and electricity (1.91%) segments were responsible for the growth of the utilities sector.

Fiscal dynamics

- Oil revenues largely remained challenged. **Estimated oil revenue fell short of target by 15.3% as of September 2023. Average oil production between January and September stood at 1.25mbpd, which was below the budgeted oil production of 1.69mbpd. The shortfall led to oil revenues not reaching its target.**
- **Despite the shortfall in oil revenues, non-oil revenue exceeded target by 35%. CIT & VAT revenues grew by 88% between Q3 2022 and Q3 2023, driven by finance & insurance (90%), information & communication (35%), mining & quarrying (69%), and manufacturing (16%) collections. Despite this, CIT & VAT collections are concentrated in a few sectors**, which implies that revenue collection is not well-diversified.
- **The budgeted fiscal deficit to GDP ratio for 2024 was 6.1% in 2023, which exceeds the 3% benchmark set in the Fiscal Responsibility Act (FRA).**

Prices and markets dynamics

- **Inflation increased to 28.92% in December 2023 from 21.8% in January,** driven by food and transportation inflation. Food inflation increased to 32.8% and transport inflation increased to 27% in December 2023. **The aggregate drivers of inflation included naira devaluation, increased food prices, high import bill, as well as rising energy and logistic costs.**
- Average exchange rate depreciated by 101% from ₦455/$ in January to ₦912/ in December 2023 **on the back of FX illiquidity, high external debt obligation, declined FDI flows and reduced non-oil exports.**
- The Nigerian Stock Exchange (NGX) recorded an increase of 46% in market capitalisation from ₦27.92 trillion in 2022 to ₦40.92 trillion in 2023. **The increase was driven partly by the positive sectoral performance of oil and gas, banking, and consumer goods sectors.**

Monetary dynamics

CBN rolled out key policy actions to address inflation and FX pressures:

- CBN took several actions to manage price stability, such as increasing the MPR to 18.75%, removing the cap on SDF, sustaining CRR debits at 32.5%, and issuing ₦6.66 trillion in OMO bills.
- Additionally, to address FX supply, the CBN collapsed all FX transaction windows into the I & E window, reintroduced BDCs, established a committee to monitor FX liquidity, and gradually cleared FX backlog obligations.
- **Despite the instruments deployed by the CBN, Inflation and exchange rate pressures persisted.**

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

02

Key trends that will shape the economy in 2024

7 trends that will shape the Nigerian economy in 2024

1. Executing fiscal reforms: balancing ambition with budgetary implementation
2. Evolving monetary policy stance: finding the right framework and instruments to achieve price stability
3. Investors' will be cautiously optimistic
4. Undulating pathways to unlocking productivity in the economy
5. Persisting vulnerability to external pressures with potential of 'shocks'
6. Consumers may likely adjust better to the evolving policy and macro realities
7. Improved sectoral development riding on reforms

Executing fiscal reforms: Balancing ambition with budgetary implementation

Key takeaways

Huge revenues ambition realisation will be hinged on oil price and production dynamics as well as implementation of fiscal reforms

- The 2024 budget proposed revenue target for 2024 of **₦18.32 trillion, which comprised oil revenue of** ₦7.94 **trillion and non-oil revenue of** ₦3.52 **trillion. Historically, actual revenue realised has averaged less than 70% of the total budgeted.**
- **Achieving budgeted oil revenue in 2024 will depend on OPEC oil production quota, international oil prices, improved security in the oil-producing regions, and geopolitical factors.**
- The U.S. Energy Information Administration (EIA) projected that oil price in 2024 will average $82/b (estimate as of January 10) which is 5% above the budgetary assumption. However, the average oil price is estimated on a daily basis subject to market forces and geopolitical factors, as the global market for oil is highly volatile.
- Non-oil revenue in 2024 may outperform the budgeted figure, due to CIT & VAT collections from the finance & insurance, information & communication, mining & quarrying, and manufacturing sectors. If implemented, the fiscal reform plans could further boost non-oil revenues. Other sources of the budgeted revenue include privatisation proceeds (₦268 billion), revenues from Government-Owned Enterprises (GoEs) and FX revaluation gains, among others.

Public debt may remain elevated driven by increased budget deficit

- The public debt stock of **₦87.9 trillion** in Q3 2023 may increase further in 2024 due to the budgeted deficit **of ₦9.18 trillion and proposed additional borrowing of ₦8.88 trillion in 2024.**
- In 2024, the government aims to reduce the budget deficit to around **3.9% (N9.18 trillion)** of GDP, down from **6.1%** in 2023.
- Furthermore, if revenue shortfall occurs, the deficit to GDP may further increase.
- Though the debt stock to GDP is low at 37.1%, the debt servicing to revenue ratio remains high at 124% as of H1 2023.
- Servicing external debt in 2024 may remain challenging due to exchange rate volatility and potential devaluation of the naira.
- The World Bank projects that without significant fiscal reforms, d**ebt service-to-revenue ratio could reach 160% by 2027.**

Proposed reforms may partly shape the direction of the economy in 2024, if implemented

- If the fiscal reforms proposed by the Committee **are effectively implemented, it could lead to improved fiscal performance, which may enhance economic growth and development.**
- Some of the reforms related to fiscal policy and governance include - **addressing duplication of functions in public service, ensuring prudent management of government assets, introduction of spending framework for subsidy removal and forex reform windfall, and creating a national portal for tracking government spending at all levels.**

Higher government spending may continue to be constrained by debt servicing obligations and huge fiscal deficit

- The spending budget for 2024 is **₦28.78 trillion** and comprises recurrent expenditure of **₦8.77 trillion** and capital spending of ₦9.99 trillion. Historically, actual expenditure has not exceeded on average, 85% of the budgeted figure due to low revenue realisation.
- The constraints to budgeted spending in 2024 include **low revenue realisation, higher debt servicing, and poor fiscal discipline which we expect fiscal reforms to address.**
- Planned spending on defence, education, health, and infrastructure constitutes the largest share of expenditure allocations for 2024 **which signals focus on security, human capital, healthcare, and infrastructure development**.
- **Efficient fund utilisation and oversight are vital to ensuring that these allocations translate to growth of the economy.**

Source: World Bank, IMF, CBN, NESG, NBS, Fitch, PwC Analysis

Non-oil revenue target surpassed while underperformance in capex remained high in 2023

2023 Budget Performance: Projection vs Actual

Budget Item Description	2023 Budget Projection- ₦'trillion	Actual (Sept 2023) - ₦'trillion	Variance (%)
Total Revenue	**11.05**	**8.65**	**-22**
Oil Revenue	2.2	1.4	-49
Non-oil Revenue	2.47	2.5	1.2
Aggregate Expenditure	**24.8***	**12.7**	**-49**
Capital Expenditure	7.9	1.5	-81
Recurrent Expenditure	15.9	10.5	-34
Debt Service	6.6	5.7	-14
Deficit	**13.8**	**4.0**	**-71**
Borrowings	**8.8**	**4.0**	**-55**

2023 Budget Economic Assumptions: Projection vs Actual

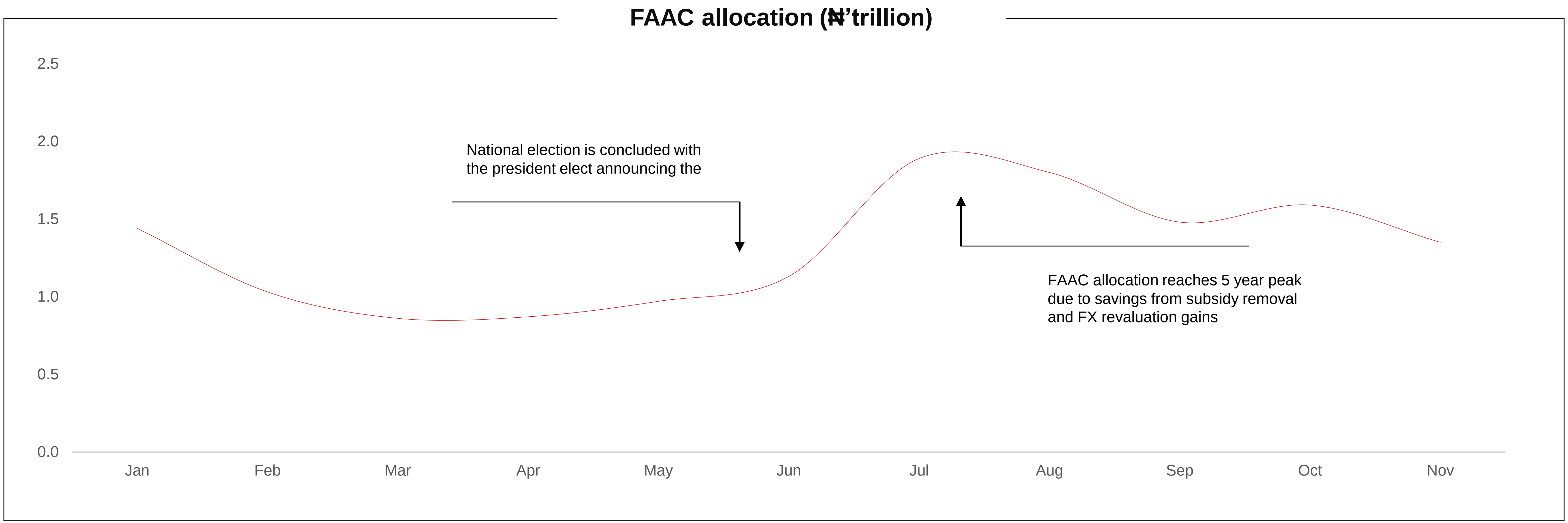
Budget Item Description	2023 Budget Projection	Actual (2023)	Variance (%)
Oli price benchmark ($)	75	84.1**	12
Oil Production (mbpd)	1.69	1.25***	-26
Exchange rate (₦/$)	435	832.1****	91
Inflation (%)	17.16	28.2*****	65
GDP growth rate (%)	3.17	2.54******	-20

Source: BOF, DMO, PwC Analysis

*Variance (%) is estimated by (Actual - Budgeted)/Budgeted * 100*

**Aggregate expenditure is inclusive of supplementary budget spending*
*** CBN Average price of Bonny Light crude (Jan-Nov)*
**** Average production, exclusive of volumes for repayment of arrears.(Jan-Nov)*
***** CBN average exchange rate (Jan - Nov)*
****** Headline inflation as of November*
******* Q3 real GDP growth*

FAAC allocation increased by 16% in June partly due to fuel subsidy savings and FX revaluation gains in 2023



Key Insights and Outlook

- The total FAAC allocated in June 2023 was ₦1.14 trillion driven by statutory account balance (₦701.79 billion), VAT (₦270.2 billion), exchange rate differential (₦146.4 billion), exchange gain allocation (₦0.64 billion), Electronic Money Transfer Levy (₦14.97 trillion).
- FAAC allocation increased to ₦1.8 trillion in July driven by gains from subsidy removal, increase in CIT, VAT and oil and gas royalties.
- **FAAC allocation also decreased by 15% in November to ₦1.35 trillion from ₦1.59 trillion – higher than the allocations in July and August. The decrease in allocation in November may be partly attributed to the decline in gross statutory revenue from excise duties, CIT and oil and gas royalties in October 2023.**

Domestic and external debt values are as at H2 2023

Source: NBS, PwC Analysis

Preliminary*

Budgeted fiscal deficit in 2024 to be financed by 89% of new borrowings

Revenue projection — ₦18.32 trillion

Oil	Non-Oil	Other sources
₦7.94 trillion	₦3.52 trillion	₦6.86 trillion

Planned expenditure — ₦28.78 trillion

Recurrent Non-Debt	*Debt service	Capital expenditure	**Statutory transfer	Sinking fund
₦8.77 trillion	₦8.25 trillion	₦9.99 trillion	₦1.74 trillion	₦0.24 trillion

Key assumptions

Exchange rate	₦800/$
Oil price	$77.9 per barrel
Oil production	1.78 mbpd
Target inflation	21.4%
GDP growth rate	3.88%

Key Insights and Outlook

- **The 2024 budget includes an expenditure of ₦28.78 trillion, with a revenue projection of ₦18.32 trillion and a deficit of ₦9.18 trillion, which will be funded by new borrowings amounting to ₦7.83 trillion, privatisation proceeds of ₦268 billion, and multilateral & bilateral development project loans totaling ₦1.05 trillion, in addition to revenues from Government-Owned Enterprises (GoEs) and foreign exchange revaluation gains.**
- **In December 2023, the extension of the implementation of the 2023 supplementary budget till 31 March 2024 was approved.**
- Fiscal sustainability concerns may remain elevated in 2024 given debt servicing concerns and government capacity to meet revenue targets.

**Awaiting appropriation document*

Source: BOF, PwC Analysis

Preliminary*

Oil revenue projected to be the largest revenue source in proposed 2024 budget

₦18.32 trillion
total expected revenue

₦7.94 trillion
Oil revenues

- Dividends from Sales
- Petroleum Profit Tax (PPT) and Company income tax(CIT)/Hydrocarbon Tax (HT) on Oil & Gas
- Royalties
- Concessional Rentals
- Pipeline fees

₦6.86 trillion
Independent revenue

- Grant & donor-funded projects
- Dividends from;
  - Bank of Industry
  - Development Bank of Nigeria
  - Galaxy Backbone
  - Bank of Agriculture

₦3.52 trillion
Non-oil revenue

- Solid mineral and mining revenues
- Non-oil taxes

Key Insights and Outlook

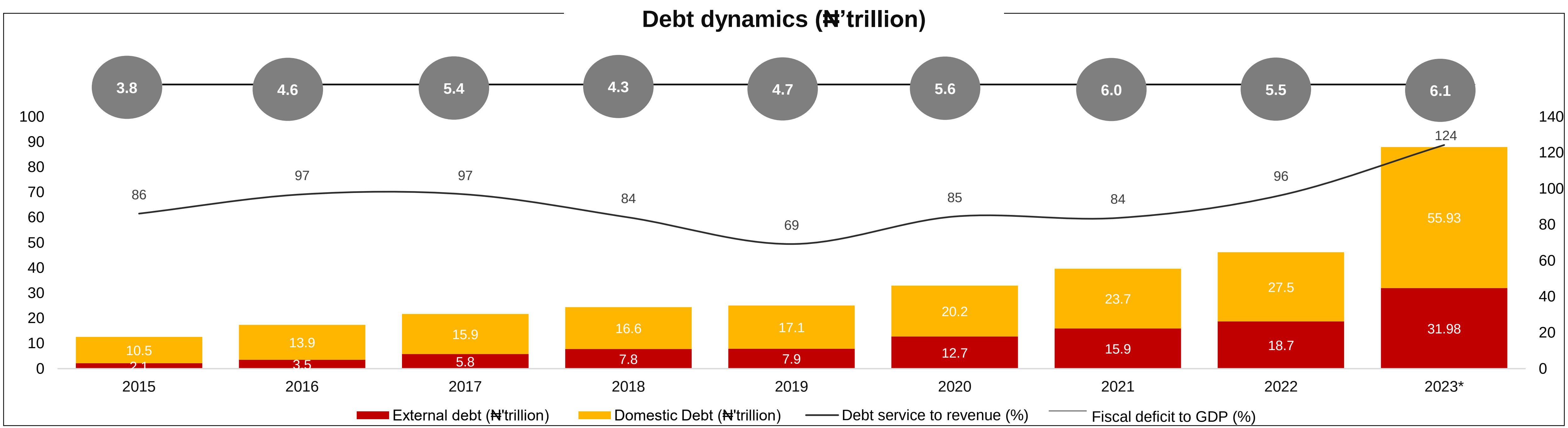
- The budgeted revenue from oil sources is estimated at ₦7.94 trillion, accounting for 43% of the total projected revenue. Revenue from non-oil sources is projected at ₦10.38 trillion, comprising independent sources and non-oil taxes. The attainment of the oil revenue target will be based on improved security and potential adjustments to the production quota from OPEC in 2024.
- **The projected revenue outlook underscores the necessity for reforms in fiscal management** aimed at enhancing revenue collection.

**Awaiting appropriation document*

Source: BOF, PwC Analysis

Debt stock may remain elevated in 2024 as government seeks to fund deficit via additional borrowings

Preliminary*



Key Insights and Outlook

- The securitisation of ₦7.3 trillion in ways and means may alleviate the debt service burden in the short term, with the securitisation terms offering **a 40-year tenor, a 5% interest rate, and a 3-year moratorium on principal repayments.**
- **The Medium-term Expenditure Framework (MTEF) report projects an increase in the debt service for the 2024-2026 fiscal years. Debt service is projected to rise from ₦8.25 trillion in 2024 to ₦9.3 trillion in 2025 and further to ₦11.1 trillion in 2026. This may affect the country's debt servicing ability, credit rating outlook, and borrowing cost.**
- With a high debt servicing to revenue ratio, the government aims to increase domestic debt in 2024 to meet its deficit funding requirements.
- **This shift towards more domestic borrowing could impact the private sector, as government credit constitutes 37% of net domestic credit, which saw a 28% increase from January to September 2023.** Additionally, Nigeria grapples with a low domestic credit-to-GDP ratio of 12% in Q1 2023, lagging behind countries like South Africa, Egypt, and Morocco.

Domestic and external debt values are as at September 2023, debt service to revenue is as of Q2 2023 **Awaiting appropriation document*

Source: BOF, DMO, PwC Analysis

Debt sustainability will be a key pressure point in 2024

Factors	Key drivers and outlook of debt in 2024
Fiscal deficit	• Nigeria's deficit has grown by **370%** from 2015 to 2023, which has led to a high debt and debt servicing profile. Though debt stock to GDP is comparatively low at 37.1%, the debt servicing to revenue ratio remains high at 124% as of H1 2023. In 2024, the government aims to reduce the budget deficit to around **3.9% (₦9.18 trillion)** of GDP, down from **6.1%** in 2023, through reduced spending. • However, the deficit to GDP is still slightly above the Fiscal Responsibility Act (FRA) threshold of **3%** of GDP.
Interest rate movements	• Since March 2022, the US Federal Reserve has raised its key rate 11 times - impacting borrowing costs for pricing debt instruments for several countries. The current benchmark short-term rate stands at approximately **5.4% -** the highest in 22 years. • It is expected that global central banks will reduce key benchmark rates in 2024 e.g. If price stability is maintained, Fitch projects that the global benchmark borrowing rate may decline to an average of 3.75% to 4.75%* **in 2024.**
Commodity price shocks	• Oil exports accounts for over **80%** of total exports**.** This makes the commodity and the economy susceptible to price fluctuations in the global oil markets. 59% of annual FX inflows were from autonomous sources in 2022. Since 2007, the FX inflows from autonomous sources has exceeded inflows from the CBN. • An oil glut may likely occur in 2024 as global production is expected to outstrip consumption. The U.S. EIA forecasts Brent crude prices to average of **$85** per barrel in Q1 2024 due to OPEC+ production cuts (as of January 19). • While this could boost revenue from crude oil sales, the high oil price and exchange rate devaluation may further raise domestic fuel costs.
Exchange rate volatility	• Servicing external debt in foreign currency becomes challenging due to exchange rate volatility and the devaluation of the naira. • Fitch projects that 60% of retained revenue will be utilised to service debt on the back of fiscal constraints in 2024.
External reserves position	• Nigeria's foreign reserves has steadily declined over the past five years. Foreign reserves hit a two-year low of **$33 billion in December 2023**. Factors contributing to this decline include the increased import bill, which grew by 33% from ₦6.34 trillion in Q3 2022 to ₦8.46 trillion in Q3 2023. • Efforts to attract investment, enhance revenue, and manage expenditures are essential for Nigeria to expand its foreign reserves and ensure sustained economic growth and stability.

**Fitch expects policy rates to fall by 75bp by end-2024 in all three economies, taking the Fed Funds rate (upper band) to 4.75%, the ECB Main Refinancing Rate to 3.75% and BOE Bank Rate to 4.5%.*

Source: World Bank, IMF, CBN, NESG, NBS, Fitch, PwC Analysis

Evolving monetary policy stance: Finding the right framework and instruments to achieve price stability

Key takeaways

CBN has deployed several monetary policy tools and instruments to achieve price stability

- **Despite the deployment of monetary policy tools, the inflationary pressure has persisted. Going forward, the CBN plans to include an inflation targeting mechanism that involves setting and communicating a specific inflation rate target, using tools like the policy rate, OMO bills, repo and reverse repo** to achieve it.
- To succeed, the Central Bank of Nigeria (CBN) must **independently pursue inflation goals, emphasising inflation control, and maintaining a stable financial system**.
- **Finding coherence and alignment between fiscal and monetary policy** to stabilise prices may enable the achievement of statutory and policy targets in 2024.

CBN clarity of policy, transparency of market operations and consistent communication will bring enhance stability to exchange rate price discovery and market activities

- FX illiquidity challenges **due to lower foreign exchange inflows from reduced crude oil revenues and declining foreign direct investment persists**.
- In response, the Central Bank of Nigeria has implemented measures such as **clearing FX backlogs, liberalising the FX market, and lifting restrictions on certain imports to boost FX access**. Despite these efforts, if export proceeds and capital importation remain low, and investor confidence is not restored, the FX market may continue to experience uncertainty in 2024.
- By providing a transparent framework, investors gain confidence, enabling more price discovery. Clear communication builds trust and reduces uncertainty, creating an environment conducive to stable exchange rates and robust market dynamics.

Source: World Bank, IMF, CBN, NESG, NBS, Fitch, PwC Analysis

Despite the instruments deployed by the CBN, inflationary pressure may remain elevated in the short term

Monetary Policy Rate (MPR)

- Raised MPR 4 times from 16.5% in January to 18.75% in 2023.
- Increased maximum lending rate to 27.59%.

Cash Reserve Requirement (CRR)

- Raised CRR to 32.5% threshold.
- Enforced LDR at 65% with a 50% CRR deduction upon failure to comply.

Open Market Operations (OMO)

- Issued ₦658 billion in OMO bills to mop up excess liquidity
- Issued ₦6.66 trillion in Treasury bills in 2023

Standing Deposit Facility (SDF)

- Removed cap on SDF from a daily maximum limit of ₦2 billion

Key Insights and Outlook

- Inflation rose for the twelfth consecutive month in **December to 28.92% from 21.8% in January**. This upward trend persisted despite the CBN implementing several measures through the year. These measures include **raising the MPR on four occasions, increasing the Cash Reserve Ratio to 32.5%, issuing OMO bills to mop up excess liquidity, and lifting the cap on the Standing Deposit Facility (SDF) from a daily maximum limit of ₦2 billion.**

- The CBN reported that Cash in Circulation (CIC) increased by **92% to ₦3.35 trillion in November 2023 compared to October 2022**. This rise is due to the lingering effect of the naira crunch and the resulting impact on businesses and households. The surge in CIC limits the effectiveness of the CBN monetary policy instruments in cooling inflation.

- Apart from money supply, inflation is driven by other factors. These factors are structural and include rise in energy prices, food insecurity, exchange rate devaluation, among other factors.

- **Finding coherence and alignment between fiscal and monetary policy** to stabilise prices may enable the achievement of statutory and policy targets in 2024.

Timeline of events that had implications for the Nigerian economy

Jan: *MPR raised to 17.5% from 16.5% amid naira crunch occasioned by naira redesign policy*

Mar: *MPR raised by 50bps to 18%*

May: *MPR raised by 50bps to 18.5%*

Jun:
- *Removal of fuel subsidy*
- *FX liberalisation policy announced*

Jul:
- MPR raised from **18.5% to 18.75%**
- **Reintroduction of BDCs**

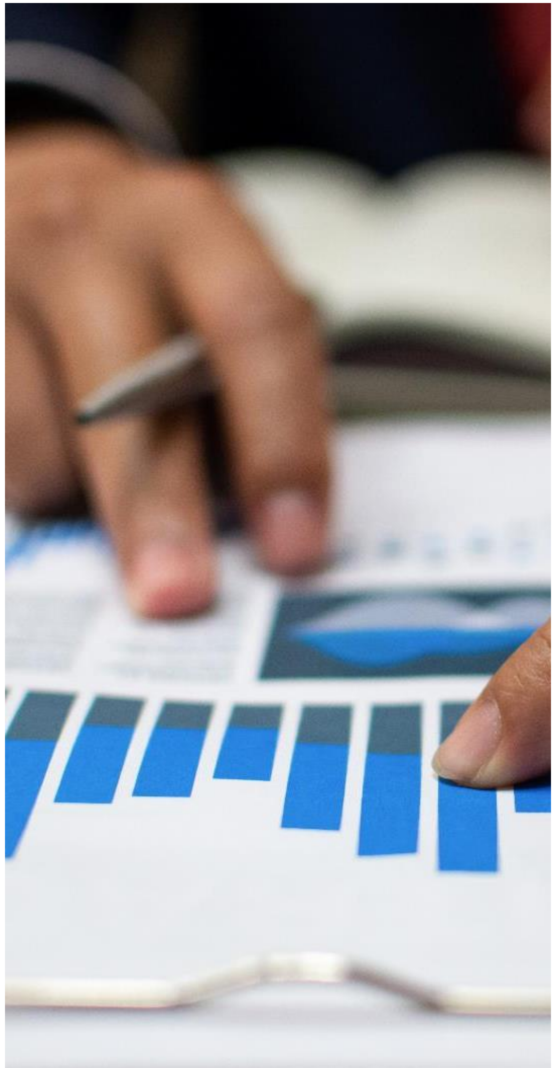
Sep: *Appointment of new CBN Governor*

Oct: *CBN lifts ban on 43 items previously restricted from forex access*

Nov:
- *CBN takes position on reforms including planned inflation-targeting framework*

Source: CBN, EIA, DMO, PwC Analysis

CBN has highlighted the use of inflation targeting as a policy tool for managing inflation



Transitioning to Inflation Targeting Regime..

- Inflation targeting is a **monetary policy approach wherein a central bank predicts and discloses a designated inflation rate target**. Subsequently, it endeavours to guide the real inflation rate toward the specified target by employing essential monetary policy tools, including the central bank policy rate, OMO (Open Market Operations) bills, repo and reverse repo, and other monetary policy instruments.
- **Potential limitations of inflation targeting in developing economies include**:
  - Strength of transmission mechanism
  - Policy autonomy of the Central Bank.
  - Lack of coordination between fiscal and monetary authorities.
  - Structural challenges which include the size of the informal economy.

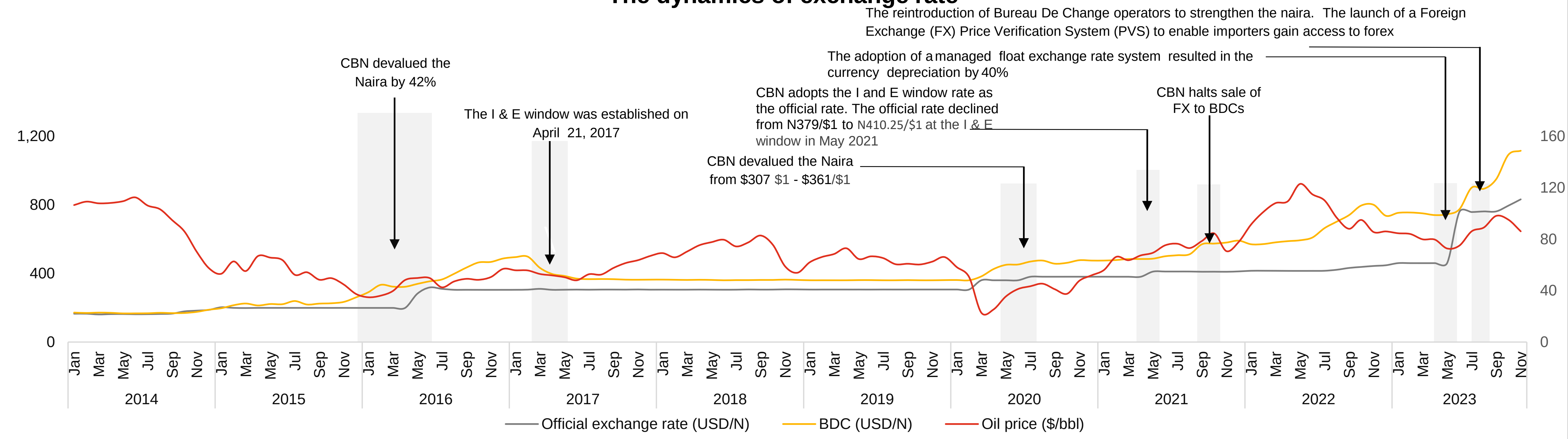
Determinants of a successful Inflation Targeting

- **Mandate of inflation pursuit and transparency:** The monetary policy authority must independently pursue inflation targets and be transparent about its monetary policy framework and outlook.
- **Full prioritisation of inflation targeting objective:** The monetary policy should emphasise inflation control, limiting fiscal policy influence, and government access to the monetary policy authority credit, with the external financial position supporting this approach.
- **Development and stability of financial system:** A stable and healthy financial system is vital for the monetary policy authority to focus on inflation targeting. This involves using market-based monetary instruments and addressing any infrastructure deficiencies.
- **Instruments to implement monetary policy in support of the inflation target:** The monetary policy authority needs to manage inflation through its policy instruments, understand policy and inflation linkages, align exchange rate policies with inflation targets, and ensure that fiscal and public debt management activities support the inflation target.

Source: IMF, PwC Analysis

Uncertainty in FX environment may continue in 2024 if supply challenges persist

The dynamics of exchange rate



Key Insights and Outlook

- **FX illiquidity challenges persist due to limited foreign exchange inflows to the country.** Other challenges include lower proceeds from crude oil inflows due to decline oil production. The average oil production from January to November stood at 1.25 mbpd, falling short of both the budgeted 1.69 mbpd and the OPEC crude oil production quota of 1.78 mbpd. Another challenge is the reduced FDI flows, capital importation declined by 43.6% to US$654.65 million in Q3 2023 from US$1,159.67 million in Q3 2022 due to several factors such as difficulty in funds repatriation abroad, insecurity, infrastructural deficit, etc.

- To address these issues, the CBN implemented various strategies aimed at attracting foreign exchange inflows, which include the **continuous clearance of FX backlogs, liberalising the FX market, and removing restrictions on 43 banned items from accessing FX, among other reforms**. **However, uncertainty in the FX environment may persist in 2024 if supply challenges are not met.**

Source: CBN, PwC Analysis

Factors that may impact forex flows to the economy

Key factors	Factors that may impact forex flows to the economy
Cost of funding	• Increase in debt concerns which has led to lowering of credit ratings may lead to increase in the cost of international fund. This may increase the demand pressure on forex to meet future FX debt service obligations. This is evident in the decline in capital importation from $24 billion in 2019 to $2.8 billion as of Q3 2023*. However, an expected lower interest rate environment may balance this out.
Capital reallocation	• FTSE Russell and MSCI Nigeria Indexes reclassified the Nigerian equities market on the backdrop of foreign exchange (FX) challenges. **Thus, in 2024, there may remain cautious investor confidence pending the stability of the FX market.**
Trade balance	• Marginal trade surplus may have lower impact in easing FX flows. Nigeria's trade surplus of ₦1.8 trillion recorded in Q1 2023 is due to the dominance of crude oil exports valued at ₦8.54 trillion, or 82.50% of total exports. **In 2024, the trade balance may maintain status quo, if ongoing reforms yield gains in oil and non-oil export portfolios.**
Remittances	• According to the World Bank, Nigeria, the largest remittance-recipient country in Sub-Saharan Africa, received an estimated $20.52 billion in official remittances in 2023, a slight increase of 3.64% compared with the previous year of $19.8 billion**. This trend may continue in 2024 driven by the decline in inflation rate in high-income countries and modest economic growth of high-income countries.**
Confidence	• Speculative credit ratings due to Nigeria's widening fiscal deficit, high debt service to revenue ratio may impact investor confidence in the Nigerian economy. This may lead to reallocation of funds from the Nigerian economy and reduction in FX flows. **While macroeconomic indicators may remain tepid, improved policy environment and policy execution may enhance overall investor confidence.**

Key Insights and Outlook

- Despite various efforts aimed at stabilising the FX market, **the illiquidity challenges may continue to limit investors ability to repatriate capital**. **However**, **key short and medium term policy initiatives may result in an improved FX market.**
- **The key drivers of stable FX market include better price discovery, liquidity, and reduced friction in access.**

**Capital importation figures as of Q3 2023 is the sum total of capital importation between Q1 to Q3 2023*

Source: World Bank, PwC Analysis

Investors will be cautiously optimistic

Key takeaways

Foreign portfolio investment flows to the capital market may remain cautious due to residual challenges

- Investors' outlook may be dampened by downgrades from FTSE Russell and MSCI, specifically due to delays in capital repatriation. Despite this, **Moody's, Fitch, and S&P maintained a speculative credit rating due to drawbacks on reforms and several fiscal challenges that persist**. However, **Moody's and S & P revised its outlook from negative to stable citing possible reversal of the deterioration in the country's fiscal and external position due to authorities' reform efforts.**
- The capital market performed well in 2023 gaining 46% despite sustained inflation and FX liquidity challenges. **Investors may remain cautious due to fiscal and monetary reforms to address inflation and FX illiquidity.**
- Governance credibility, policy credibility and institutional credibility of key institutions, especially in communicating and implementing key policy changes may continue to impact investor confidence.

FDI flows are expected to improve in 2024 driven by notable expansion in the growing ICT and Manufacturing sectors

- Foreign Direct Investment (FDI) flows to Nigeria has been declining since 2020. Constituting only **9% (US$60 million)** of total capital importation in Q3 2023, FDI declined by **30.52%** from the previous quarter and decreased by **26.86%** compared to the same period in 2022.
- While FDIs remain relatively low, its distribution across sectors may continue to be uneven. This implies that some sectors may continue to experience higher capital flows than others. For instance, the manufacturing sector grew by **185%** YoY due to increase in loans and bonds to the sector while flows to the banking sector shrunk by **86%** YoY.
- Expected reforms such as the recapitalisation of banking sector may improve FDI flows to the sector as it accounts for 19% of total capital flows between Q1 and Q3 2023.

Source: FTSE Russell, Fitch, Moody's, S&P Global, NBS, PwC Analysis

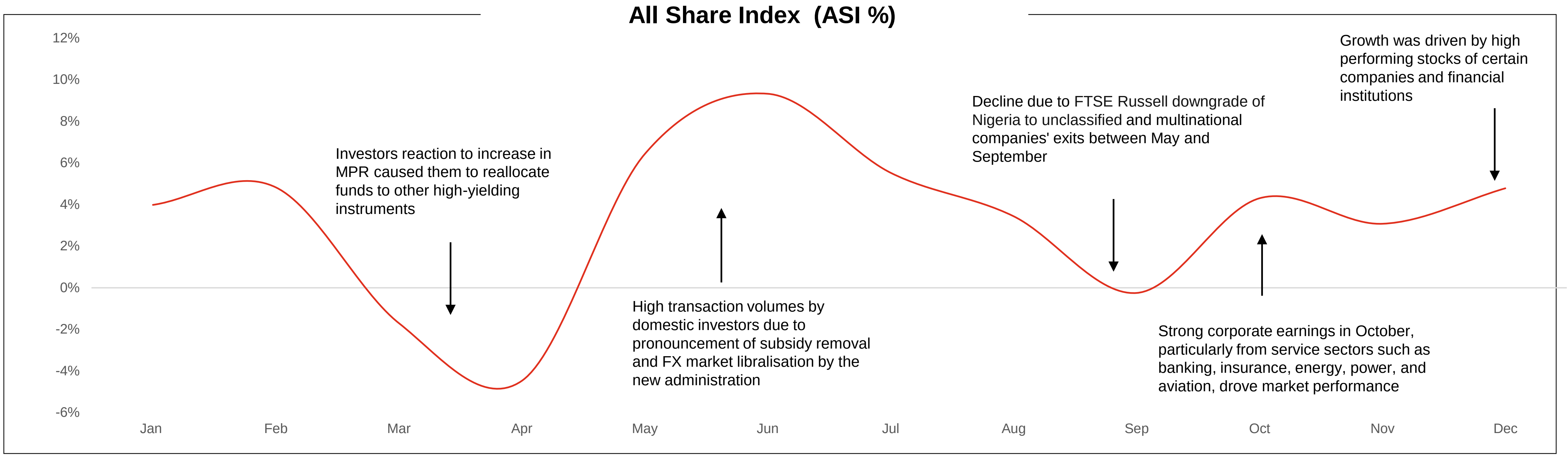
Global ratings, policy environment, capital flows, macro and policy environment will drive investment in 2024

Global ratings	• Moody's, Fitch, and S&P maintained a speculative credit rating due to drawbacks on reforms and several fiscal challenges that still persist. However, Moody's and S & P revised its **outlook revised from negative to stable citing possible reversal of the deterioration in the country's fiscal and external position due to authorities' reform efforts.** • **Foreign investment may remain subdued in 2024 due to capital repatriation challenges.**
Policy environment	• **Removal of fuel subsidy (which cost $10 billion in 2022), and the collapse of multiple FX windows into a single I & E window (which caused naira to depreciate by 98% between May and December 2023)** among other monetary policy efforts, were key policies executed to spur growth and regain investors confidence. • **The planned fiscal and monetary policy reforms in 2024 are expected to stimulate economic growth, reduce inflation and address the FX challenges in 2024 to drive investment.**
Domestic savings	• **Growth in domestic savings increased by 20.94% in Q2 2023 from 26.85% in Q2 2023.** The decline in the pace of growth in savings is attributed to the decline in real income which stems from high inflation. • **Savings may remain subdued in 2024 due to sustained inflationary pressures.**
Macroeconomic environment	• **GDP grew marginally Y-o-Y by 2.54% in Q3 2023 from 2.25% in Q3 2022.** Financial Services and the Information and Communication sectors were the fastest growing sectors at 28.21% and 6.69% respectively. • Inflation reached 28.2% in November 2023, a 31% increase from 21.47% in November 2022. • **The marginal increase in growth and high inflationary levels signal a weak macro environment to investors.** • **Reform direction to address the trend will impact investor sentiment in 2024.**
Sectoral reforms and development	• Accelerated implementation of fiscal and monetary policy reforms is imperative for economic and sectoral growth and development. This is also a key driver to unlocking much needed productivity and investments to economic sectors. • **Sectoral reforms such as the recapitalisation of the banks, electricity act, National Agricultural Growth Scheme and Agropocket (NAGS-AP), PIA among others may drive investment to the sectors in 2024.**
Capital market performance	• The capital market gained **46%** by year end 2023 partly due to positive market sentiment and response to corporate earning results of corporate entities in select sectors. Speculative trading activities also drove gains in capital market activities. • **Equities experts have projected that capital market performance is projected be slightly positive in 2024 on the back of an improved macroeconomic landscape, strong corporate earnings and proposed reforms in the capital market. However, performance is expected to hover between 13% and 15% which will be significantly lower than gains experienced in 2023.**

The direction of Impact on investment	
	Positive
	Neutral
	Negative

Source: FTSE Russell, Fitch, Moody's, S&P Global, NBS, FMoCIDE, Afrinvest, Meristem, PwC Analysis

Corporate exits, lackluster financial results from the real sector due to FX revaluation losses, FTSE Russell downgrade impacted market performance in 2023

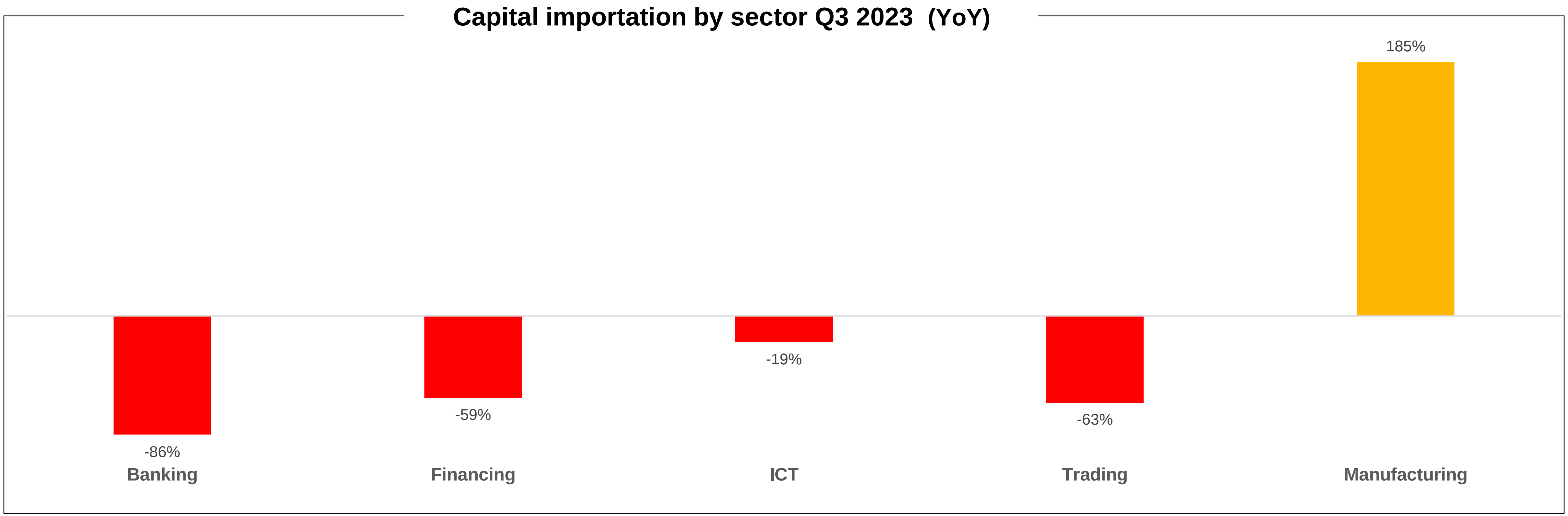


Key Insights and Outlook

- **ASI increased in December 2023 by 4.78% to 74,773.77 points driven by high performing stocks of companies and financial institutions worth over one trillion naira due to investing activities undertaken to achieve corporate growth and expansion, as well as bank revaluation gains which enhanced their profitability.**
- **However, corporate exits such as GSK, PZ and Union Bank partially weighed down on market performance in 2023. The NGX ASI dropped by 0.3% in September while market capitalisation shed ₦90.4 billion to close at ₦36.3 trillion.**

Source: NGX, CBN, PwC Analysis

Capital flows to Manufacturing grew Y-o-Y by 185% while Banking, Financing , ICT and Trade shrunk…

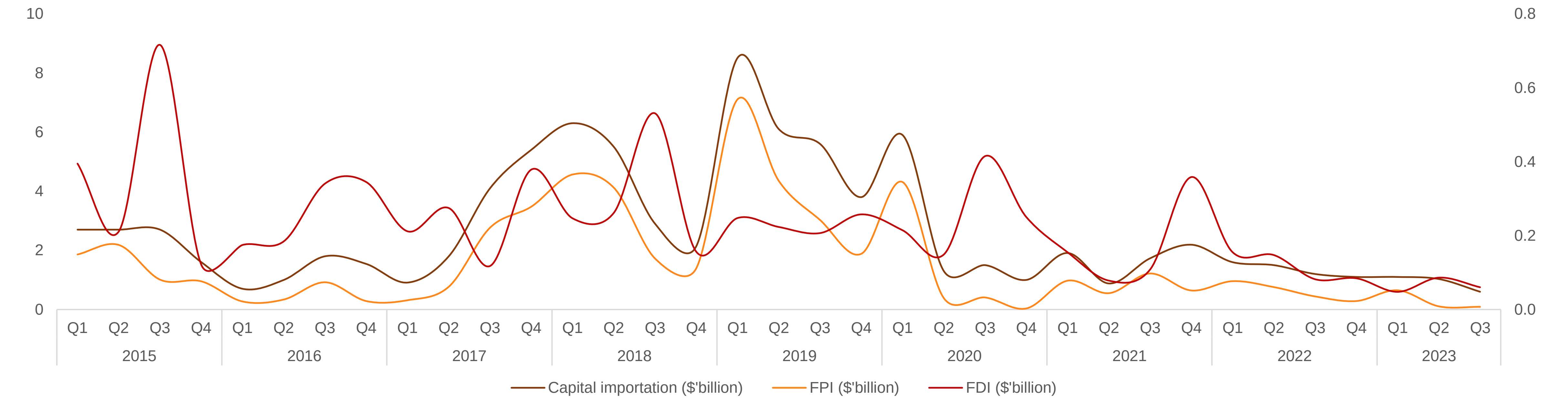


Key Insights and Outlook

- Capital flows to Manufacturing grew by 185% from $98.22 million in Q3 2022 to $279.51 million in 2023 due to increase in loans and bonds to the sector, while capital flows to banking shrunk by 86% in the same period.
- **With the planned banking recapitalisation strategy of the CBN, there may be renewed direct and portfolio investment interests in the banking sector.**

Source: NBS, PwC Analysis

Cautious investment outlook in 2024 due to ongoing reforms



Key Insights and Outlook

- Capital importation has trended downward since 2019, from **$24 billion to $5.4 billion in 2022**. FDIs **accounted for only 9% (US$60 million) of total capital importation as of Q3 2023.**
- **Investors may be cautiously optimistic in 2024 due to ongoing fiscal and monetary reforms**.

Source: NBS, PwC Analysis

The credibility of governance, policy and key institutions as well as how policy is communicated will impact the posture of investors in 2024

Credibility of governance

- Credibility in governance results from **consistent, fair, and transparent decision-making, adherence to the rule of law, and commitment to promises**, fostering a positive investment environment and attracting investors.

✚

Quality and stability of policy implementation

- Investors look for a **track record of policy implementation that demonstrates competence and reliability**. Stability in policy implementation means that there are no abrupt changes or reversals that could create uncertainty or negatively impact investment returns.

✚

Behaviour and performance of key institutions

- Investors evaluate institutions like **central bank, regulatory bodies, and law enforcement for their vital role in upholding rules**, ensuring economic stability, and protecting investor rights. Institutional behaviour significantly shapes the investment climate, as they can either instill confidence or deter investment.

✚

Communication of key policy changes

- Transparency and clarity in communication allow **investors to understand, anticipate, and adapt to changes**. This includes not only the content of the communication but also the channels used and the timeliness of the information provided. Good communication can mitigate the risks associated with policy shifts and reduce market volatility.

Investor posture

Key Insights and Outlook

- Investor confidence in Nigeria hinges on the credibility of governance and steady policy execution, while institutional efficiency and transparent policy communications are essential for assessment and market predictability, all of which collectively influence investment decisions.
- The interplay between governance, policy implementation, institutional behavior, and communication will partly shape the overall assessment for investors in 2024.

Source: PwC Analysis

Undulating pathway to unlocking productivity

Key takeaways

Infrastructure funding may remain insufficient in 2024 due to budgetary constraint

- **Limited fiscal space for public investment and difficulty attracting private investments** constrain the ability to make essential infrastructure improvements.
- **Infrastructure funding may remain insufficient in 2024**. The allocated infrastructure spending budget for 2024 is **₦1.32 trillion**, falling short of both the **World Bank's suggested 70% infrastructure-to-GDP benchmark (currently at 30%) and the yearly $150 billion requirement specified in the National Integrated Infrastructure Master Plan for 2021-2025.**

The Electricity Act may minimise annual economic losses estimated at $28 billion annual

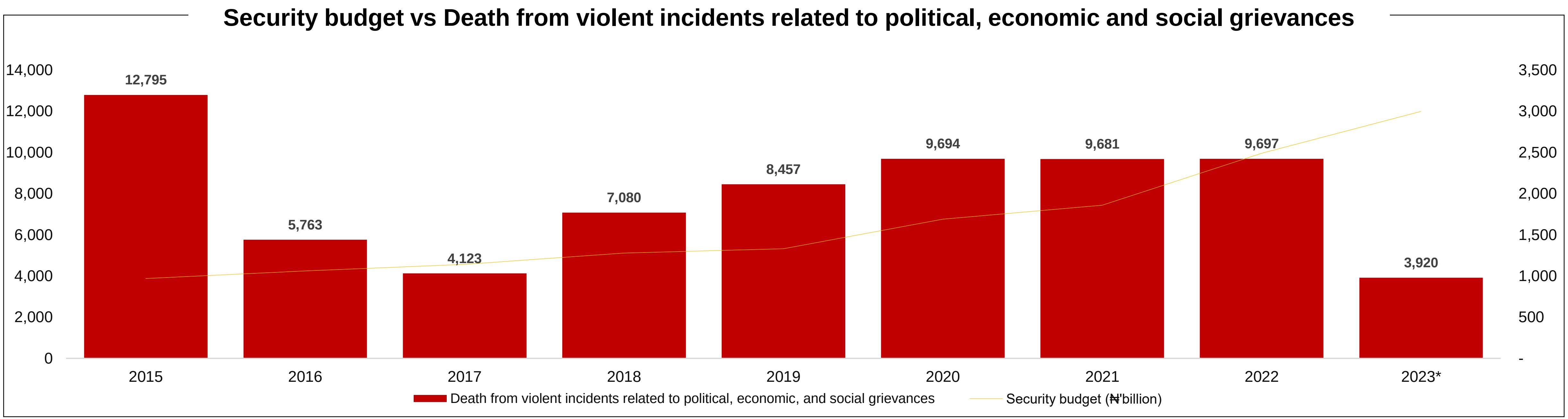
- Despite the targeted 30GW supply by 2030, electricity supplied has never gone beyond 6 GW. This implies that not much progress has been made since the target was set. This huge gap is due to deteriorating plants/units' capacities, poor maintenance due to liquidity challenge and access to forex (foreign exchange), non-binding contracts and delay payment, inadequate gas supply, transmission constraints, limited distribution network and commercial viability of Discos operation.
- The **Electricity Act** vests States, companies and individuals with the legal authority to generate, transmit and distribute electricity. If implemented by the States, the Act is expected to minimise the annual economic losses estimated at **$28 billion (₦10 trillion);** enhance electricity access to the **85 million Nigerians** that lack access to the electricity grid in the various unserved and underserved areas.

Insecurity remains a perennial challenge

- Security spending in the past nine years amounted to **₦14.8 trillion**. Despite increased spending and better coordination among security agencies, reported insecurity and associated deaths remain high, **with 3,920 deaths recorded as of June 2023**. Insecurity not only jeopardises national stability but **also negatively affects economic activities and undermines investor confidence.**
- Conflict between herders and farmers in Northwest and Middle Belt zones, and increased case of kidnappings has an adverse effect on agriculture produce, raising food prices. In Niger Delta, security challenges disrupt oil production, causing daily losses and impacting the country's revenue. Northeast faces increased conflict due to illegal mining, resulting in fatalities.

Source: NBS, PwC Analysis

Insecurity remains a perennial challenge



**2023 data on death from violent incidents related to political, economic and social grievances is as of June 2023*

Key Insights and Outlook

- Security spending in the past nine years amounted to **₦14.8 trillion**. Despite increased spending and better coordination among security agencies, reported insecurity and associated deaths remain high, **with 3,920 deaths recorded as of June 2023**. Insecurity not only jeopardises national stability but **also negatively affects economic activities and undermines investor confidence.**

- The herder-farmer conflict in the Northwest and Middle Belt zones has resulted in the killing and kidnapping of farmers, **leading to a decline in agricultural output and a surge in food prices**. In the Niger Delta, the oil and gas sector faces security challenges such as **vandalism**, **oil theft**, and **piracy**, **resulting in daily losses in petroleum production and impacting the country's revenue. In the Northeast, the prevalence of illegal mining has led to the increase in conflict and death in the region.**

- **Security situation will remain challenging**, despite the allocation of **₦3.25 trillion (12% of the total budget)** to the security sector in the 2024 budget. Root causes like increasing poverty, **inequality, high unemployment coupled with double digit inflation will continue to exacerbate the security challenges. These root causes may also precipitate isolated social unrest.**

Source: Council on Foreign Relations, Budget Office, PwC Analysis

Security risks and outlook for Nigeria in 2024

Security risks drivers	Outlook	
Macroeconomic headwinds	• The macroeconomic landscape is pressured partly **by macroeconomic headwinds significantly increasing the cost of living.** • Continued economic strain and high inflation may likely to perpetuate social unrest in 2024. • **Persistent security concerns, particularly in the North and South-South, may worsen social tensions and hamper economic growth**.	Critical
High population growth and unemployment	• Population is estimated to have grown **to 213 million as of 2022 with nearly 100 million below 18.** • World Bank projects that the share of Nigerians living below the international poverty line will **peak in 2024 at 38.8 per cent before beginning a gradual decline, as inflation cools down and economic growth picks up.** • The business environment has seen little foreign investment, limiting job creation. • Unfavourable demographic distribution and high incidence of unemployment may continue to hinder improvements in living standards posing a persistent danger to stability and economic growth.	Moderate
Environmental risks	• Diminishing resources due to climate change are heightening tensions in resource-scarce regions, particularly where ethnic and religious lines intersect such as Kwara, Kogi and Niger. • In the H2 2022 Nigeria witnessed the most devastating episode of seasonal floods in a decade, causing over 600 deaths and 1.3 million displacements from homes. • Poor planning for seasonal floods and governments limited capacity to manage tensions may heighten the risk of displacement and economic disruption in 2024.	Critical
Humanitarian crisis and internal displacement	• The UN reports 2.7 million people of concern in Nigeria, with 2.2m internally displaced and over 690,000 returned refugees. Food shortages and regional insecurity contribute to this displacement. • Heightened insecurity and cholera outbreaks due to lack of sanitation, healthcare and clean water especially among displaced individuals may likely continue to persist, hampering economic cohesion if not addressed.	Critical
Religious and ethnic tensions	• The country will remain polarised along religious and ethnic lines as observed in Northern Nigeria. The incidence of terrorist acts and the existence of militants in northern Nigeria, particularly in regions like Borno, severely obstruct the prospects for investment and regional progress. • Limited opportunities and substandard living conditions may continue to drive ethnic, sectarian, and religious divisions if the underlying macroeconomic and social issues are not solved.	Moderate

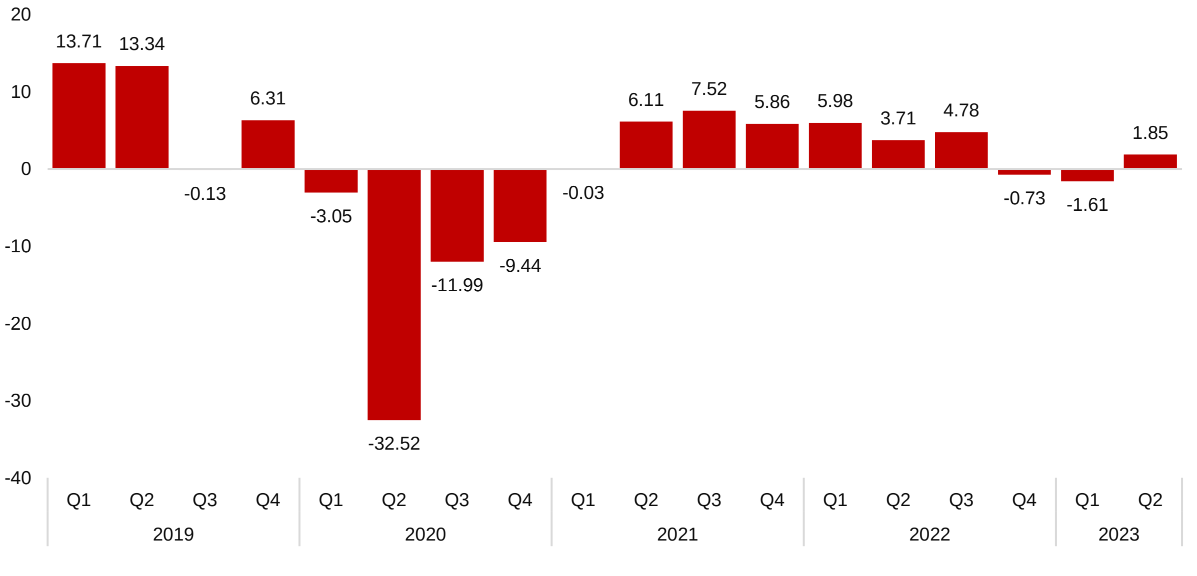
Level of impact on the economy

- Critical
- Moderate
- Low

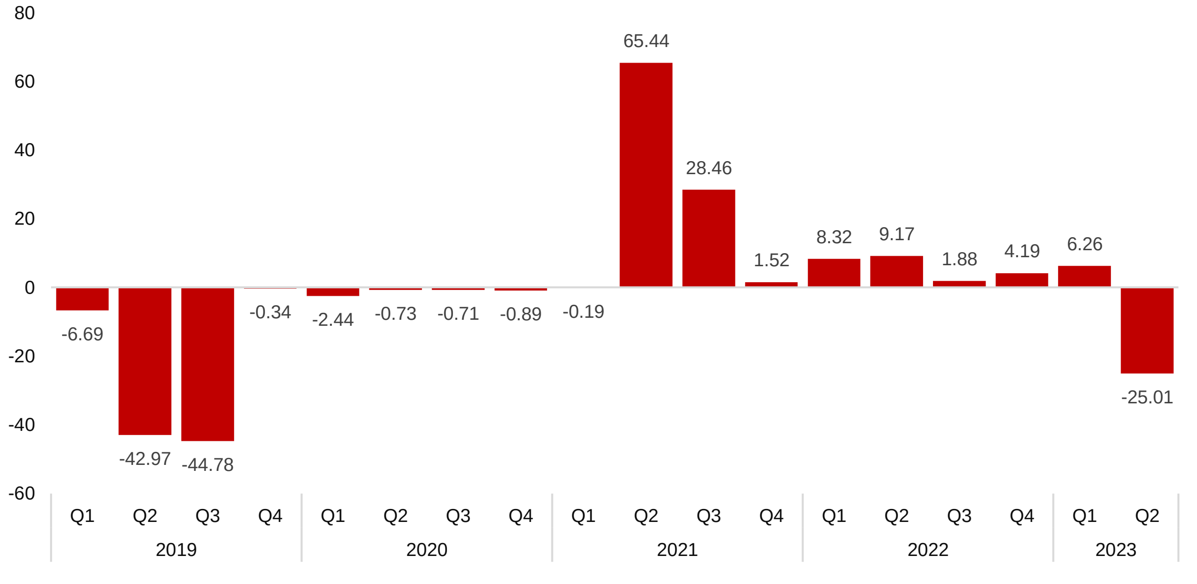
Source: World Bank, Fitch, PwC Analysis

Infrastructure funding may remain insufficient in 2024 due to budgetary constraint

Gross Fixed Capital Formation Growth Rate (%)



Consumption of Fixed Capital Growth Rate (%)



Key Insights and Outlook

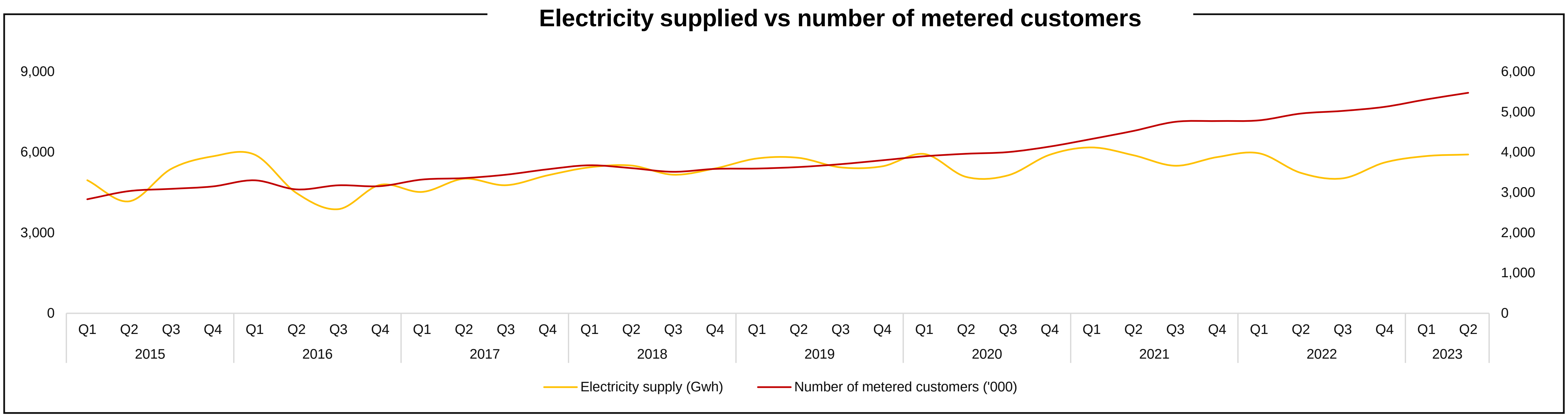
- Gross fixed capital formation grew marginally by **1.85% in Q2 2023** from **3.71% in Q2 2022**. Also, the consumption of fixed capital contracted by **-25.01% in Q2 2023** from a growth of **9.17% in Q2 2022**. The marginal growth in gross fixed capital formation and the contraction in consumption of fixed capital is due to **very low investment and replacement rate relative to the depreciation of existing assets.**

- Critical infrastructure gaps are hindering Nigeria's economic growth, with a projected need for **$3 trillion** investment over the next 30 years, according to Moody's 2020 estimate. **Limited fiscal space for public investment and difficulty attracting private investments** constrain the ability to make essential infrastructure improvements. Inadequate provision of ports, power, and roads is impeding economic progress, leaving large parts of the country without essential services. This has led to the loss of agricultural produce due to delayed transportation, delays for ships caused by inefficient ports, increased waiting time for traders to move goods across the country, etc.

- **Infrastructure funding may remain insufficient in 2024**. The allocated infrastructure spending budget for 2024 is **₦1.32 trillion**, falling short of both the **World Bank's suggested 70% infrastructure-to-GDP benchmark (currently at 30%) and the yearly $150 billion requirement specified in the National Integrated Infrastructure Master Plan for 2021-2025.**

Source: NBS, PwC Analysis

The Electricity Act may minimise annual economic losses estimated at $28 billion annual



Key Insights and Outlook

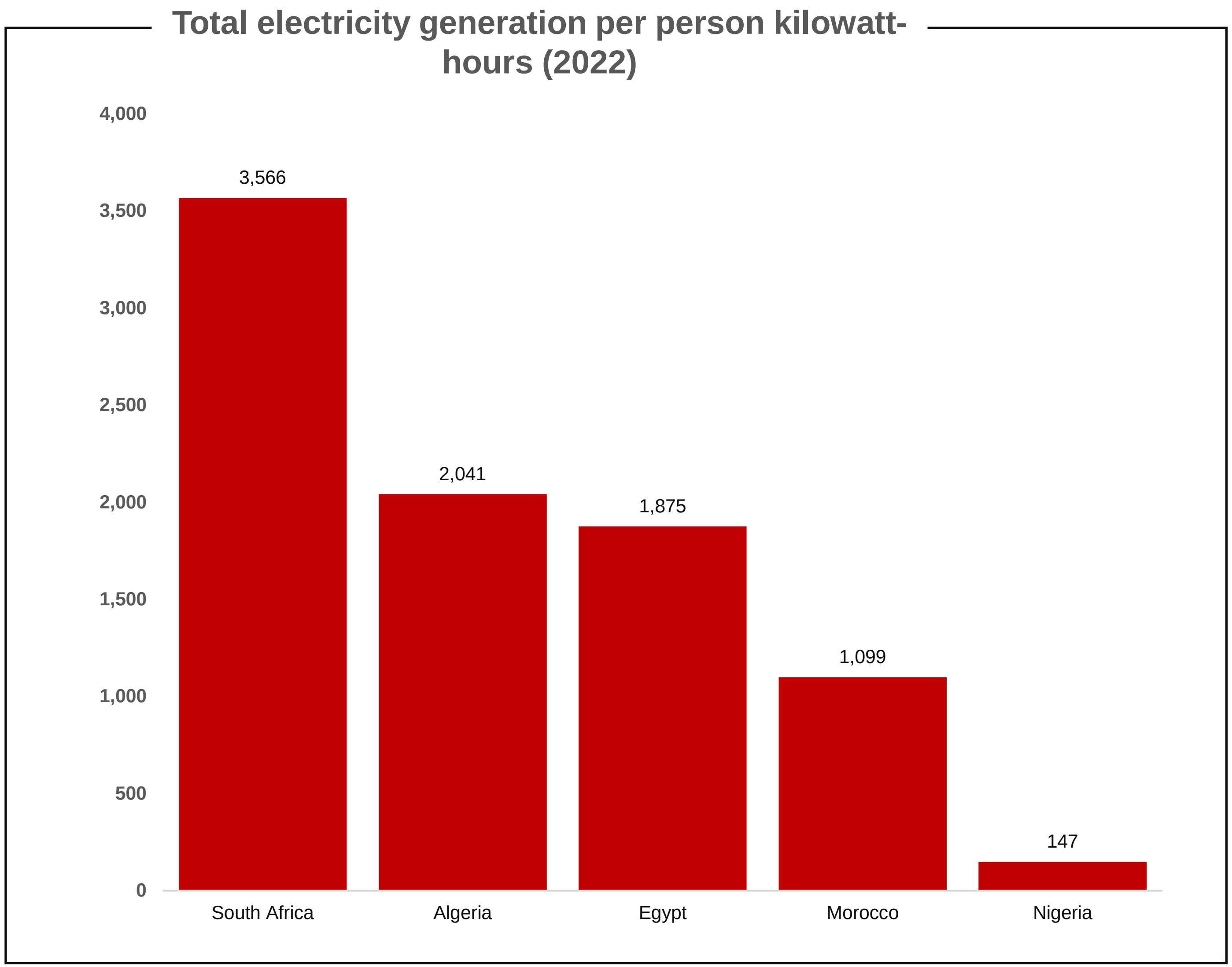
- The total electricity supplied increased by **13.1%** to **5,909.8 (Gwh)** in Q2 2023 from **5,226.97 (Gwh)** in Q2 2022. Despite the targeted 30GW supply by 2030, electricity supplied has never gone beyond 6 GW. This implies that not much progress has been made since the target was set. This huge gap is due to deteriorating plants/units' capacities, poor maintenance due to liquidity challenge and access to forex (foreign exchange), non-binding contracts and delay payment, inadequate gas supply, transmission constraints, limited distribution network and commercial viability of Discos operation.

- Similarly, the number of metered customers grew by **10.4%** to **5.47 million metered customers** in Q2 2023 from **4.96 million metered customers** in Q2 2022. Despite the growth, the ratio of metered customers to registered customers population, remains low at 50.6 per cent due to insufficient funding.

- The **Electricity Act** vests States, companies and individuals with the legal authority to generate, transmit and distribute electricity. If implemented by the States, the Act is expected to minimise the annual economic losses estimated at **$28 billion (₦10 trillion);** enhance electricity access to the **85 million Nigerians** that lack access to the electricity grid in the various unserved and underserved areas.

Source: NBS, PwC Analysis

Nigeria will require an investment of about US$1.87 billion to increase power generation capacity to 350 GW by 2043



Key Insights and Outlook

- Nigeria's electricity generation per capita was **147 kWh in 2022**, which is lower than the figures for the other four largest economies in Africa: **South Africa 3,566 kWh, Algeria 2,041 kWh, Egypt 1,875 kWh, Morocco 1,099 kWh**. This is despite Nigeria being the largest economy and having the highest population on the continent. Such a disparity has a **negative impact on growth and productivity.**

- According to the **National Integrated Infrastructure Master Plan**, Nigeria will require an investment of about **US$1.87 billion** to increase power generation capacity to **350 GW by 2043.**

Source: Ourworldindata, PwC Analysis

Persisting vulnerability to external pressures with potential of 'shocks'

Key takeaways

Global dynamics will continue to shape trade balance and exports for Nigeria in 2024

- Geopolitical, economic, environmental, political and trade trends will shape the dynamics and outlook for the Nigerian economy in 2024.
- **If the Russia-Ukraine war intensifies, it could lead to increased** global energy and commodity supply risks. Nigeria may experience increased inflation and food security challenges due to grain import disruptions and high petroleum product cost
- Nigeria may face the continued risk of dampened investor sentiment **despite the reduction in global benchmark interest rate due to FX liquidity challenges and high inflation rate**.
- The outcome of elections in several countries globally, especially USA, UK, and Taiwan may shape the dynamics of trade and capital flows around the world in 2024.

Trade surplus may be sustained but remain vulnerable to volatility of the international oil markets

- In **Q3 2023**, trade balance increased by **361% to ₦1.89 trillion surplus from a deficit of ₦409.3 billion in Q3 2022**. This increase is driven by a **44%** rise in crude oil exports which accounted for **82.5%** of total exports in **Q3 2023.**
- **Trade surplus may likely be sustained in 2024 but remain vulnerable to international oil prices/markets due to the overreliance on crude oil.**

Source: Economist Intelligence Unit, PwC Analysis

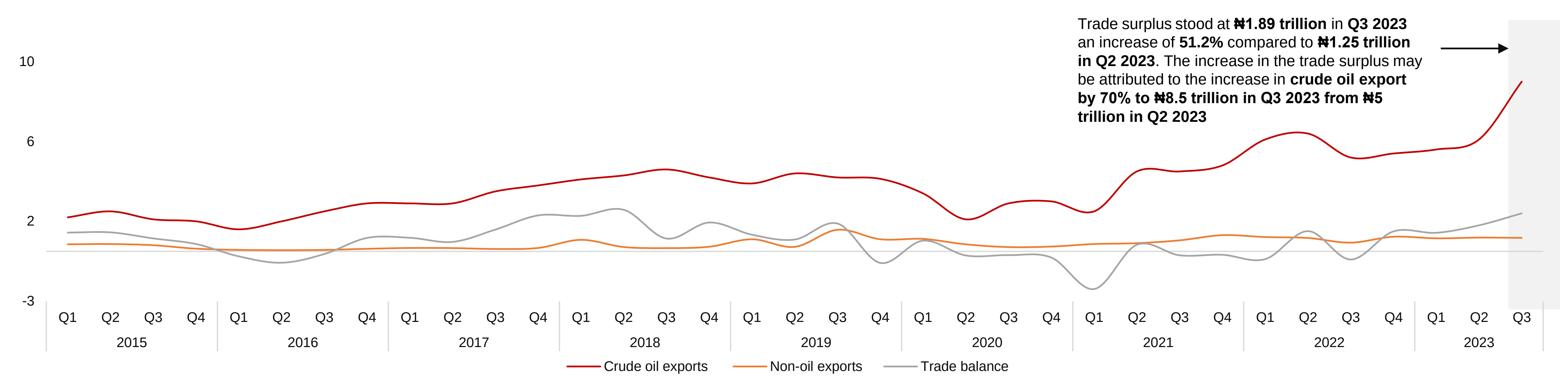
Five (5) global trends that may impact Nigeria in 2024

Global trends	
Geopolitical trends	• **Escalating conflicts between Russia-Ukraine and growing tensions between Israel-Hamas could spike global energy and some commodity prices (grains), potentially worsening Nigeria's inflation and food security. Despite possibly higher oil revenues, Nigeria could suffer due to its dependence on imported fuel.**
Economic trends	• Major Central Banks responded to high inflation in early 2022 by raising interest rates. It is expected that global central banks will reduce key benchmark rates in 2024 e.g. If price stability is maintained, Fitch projects that the global benchmark borrowing rate may decline to an average of 3.75% to 4.75%* **in 2024.** • Nigeria may face the continued risk of dampened investor sentiment **despite the reduction in global benchmark interest rate due to FX liquidity challenges and high inflation rate.**
Trade trends	• A direct China-Taiwan conflict seems unlikely in 2024 due to the risks involved, yet tensions persist. **However, if a large-scale conflict were to break out, it would severely impact Taiwan's economy, disrupting its semiconductor industry and global supply chains. Furthemore, 5 percent of global GDP estimated at $10 trillion may be lost in the event of a successful Chinese blockade.** • Nigeria may be impacted by a disruption in global supply in the event of a conflict that could **impede the flow of goods through the critical Taiwan strait route, which is vital for half of the world's shipping traffic.**
Environmental trends	• It is predicted that there will be more frequent extreme weather globally in 2024. Droughts and heatwaves have already hurt crop yields, and the return of El Niño in 2024 might worsen this, pushing global temperatures to record highs. **If extreme weather disrupts production, it could strain supply chains, spike inflation, and raise living costs.** • **Adverse weather conditions make the country more susceptible to food security risks, as well as supply chain shortages due to impact of climate change on other food exporting countries.**
Political trends	• The outcome of upcoming elections in several countries globally, especially USA, UK, and Taiwan may shape the dynamics of trade and capital flows around the world in 2024**. Changes in the U.S. economic policies, trade agreements, and investment strategies may have repercussions for Nigeria. For instance, alterations in trade agreements may affect Nigeria's exports, and shifts in U.S. economic policies could impact global commodity prices, including oil, which is a significant component of Nigeria's economy.** • **In 2024 over 50 countries are going to have national elections. Some of the countries include** United States, India, and Indonesia, among others. The elections may impact Nigeria through shifts in global economic policies, trade, and foreign relations, affecting Nigeria's international standing and economic prospects.

Source: Economist Intelligence Unit, PwC Analysis

Trade surplus may be sustained but remain vulnerable to volatility of the international oil markets

Nigeria's trade dynamics (N'trillion)



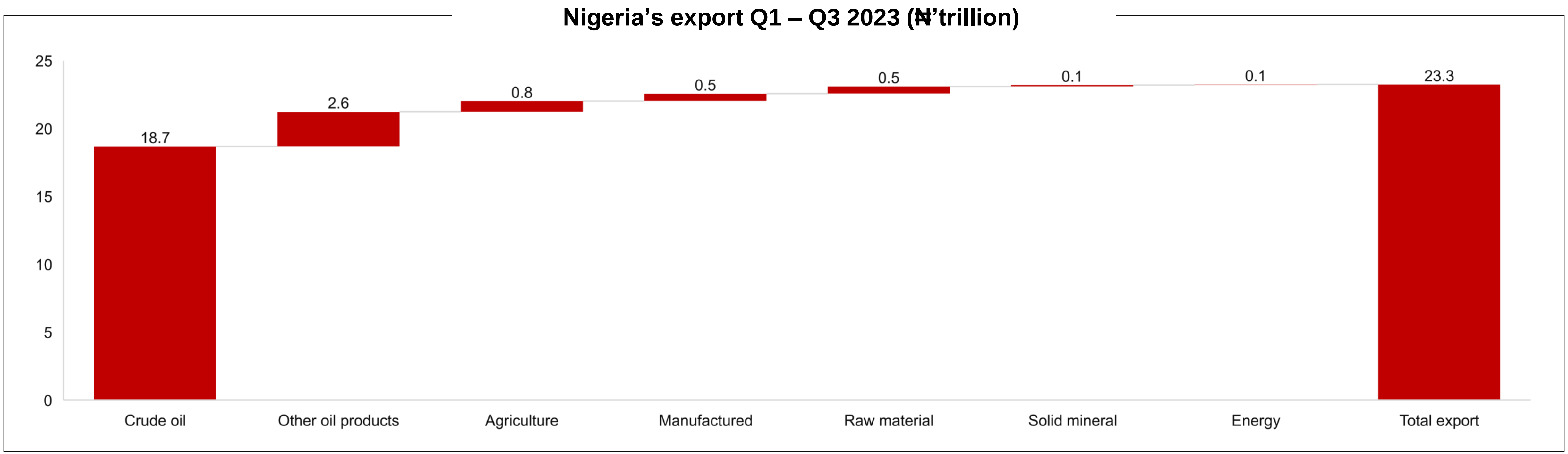
Key Insights and Outlook

- Trade surplus increased by 51.2% to **₦1.89 trillion** in **Q3 2023** from **₦1.25 trillion in Q2 2023**. The increase is attributed to the rise in **crude oil exports by 70% to ₦8.5 trillion in Q3 2023 from ₦5 trillion in Q2 2023**. Nigeria's trade surplus is susceptible to international oil prices shocks as **crude oil exports account for the largest share of exports.**

- **Trade surplus may likely be sustained in 2024 but remain vulnerable to international oil prices/market due to the heavy reliance on crude oil as the primary export revenue source.**

Source: NBS, PwC Analysis

Non-oil exports accounted for only 20% of total export between Q1 and Q3 2023



Key Insights and Outlook

- Crude oil exports accounted for **80.3% of total exports between Q1 and Q3 2023**. The over reliance on crude oil export has made export revenue susceptible to international crude oil price which is volatile.
- Key challenges limiting the growth of non-oil export include **insufficient investment, inconsistent policies, underdeveloped value chains, and the impact of scarcity of FX have hindered progress in reducing dependency on crude oil exports.**

Source: NBS, PwC Analysis

Consumers may likely adjust better to the evolving policy and macro realities

Key takeaways

Inflationary levels may remain slightly elevated, further squeezing purchasing power in the short term if corrective reforms are not accelerated

- **Inflation increased to 28.92% in December 2023 from 28.2% in November 2023,** driven by food and transportation inflation.
- Headline inflation may decelerate marginally to 21% in 2024. **The sustained inflationary pressure may be driven by a combination of the pass-through effect of the rise in international oil price on domestic energy costs and exchange rate pressures.**

Continued rise in food prices may further squeeze purchasing power in 2024 if fiscal reforms remain slow

- Food Inflation rose by 33.9% in December compared to the previous year**, due to insecurity and climate change effects in the food producing regions of the country.**
- **In November 2023, average price of 1kg of rice, yam tuber, and tomato increased by 53.1%, 79.1% and 62.4% respectively compared to November 2022.**
- **The Food and Agriculture Organisation (FAO) projects that Nigeria may experience increased prices of staple foods such as rice, maize, cereals, etc. in 2024.**

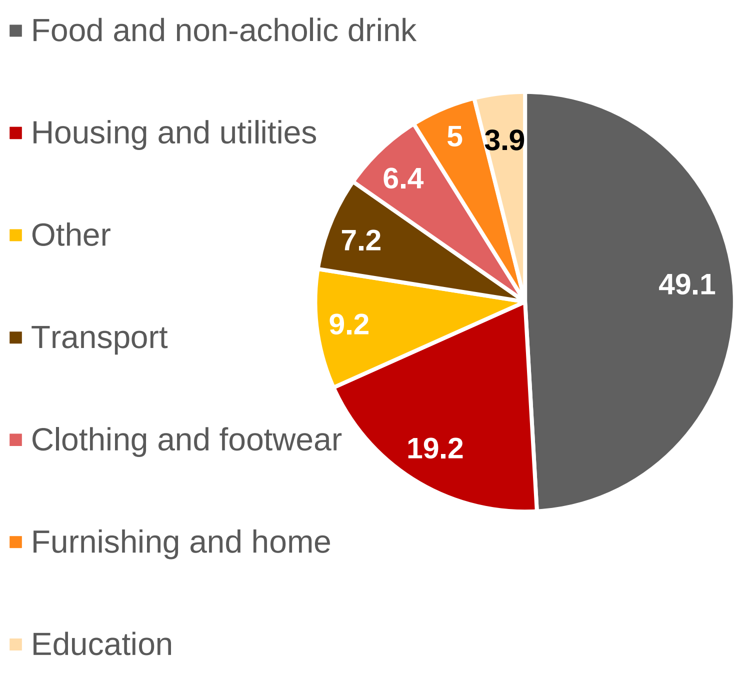
Drivers of consumer spending in 2024 include rising inflation, intervention funding, poverty level, population and birth rate, consumer income and unemployment

- Consumer spending may be pressured in 2024 due to rising prices of goods and services **(increasing food and transportation costs), coupled with lower disposable income. However, private consumption is expected to be marginally better than 2023.**
- **Poverty levels projected to increase to 38.8% in 2024.** Despite the low **unemployment rate in the country, low consumer spending and purchasing power remains an issue, especially in the absence of commensurate increase in minimum wage to mitigate the inflationary growth in the economy.**
- The government's **conditional cash transfers and projected slight decrease in inflation might offer temporary relief in 2024**.

Source: NBS, World Bank, PwC Global

Average consumer spending was impacted by increased costs of goods and services in 2023

Average Consumer Expenditure Weight % (2022 estimate)



Cumulative M-o-M Change in Inflation Key Elements Jan-Dec 2023

- Food - 29.6%
- Furnishings & Household Equipment Maintenance – 15.3%
- Transport – 23.9%
- Clothing and footwear – 15.6%
- Education – 17.9%

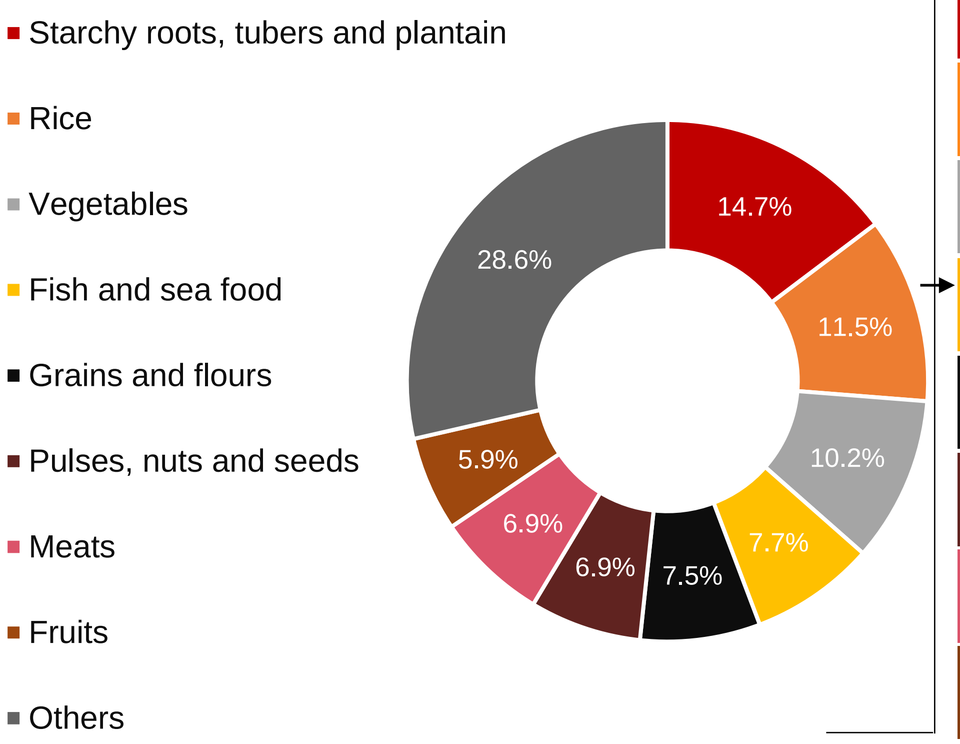
Key Insights and Outlook

- Food (29.6%) and transport (23.9%) inflation recorded the highest cumulative M-o-M change in inflation in 2023. Transportation inflation rose on account of the **higher energy prices**.
- **Currency depreciation and structural factors** drove other inflation in key elements such as clothing and footwear, furnishing and home, housing and utilities.

Source: NBS, PwC Analysis

Continued rise in food prices may further squeeze purchasing power in 2024 if fiscal reforms remain slow

Share of household expenditure on selected food commodities % (2019)



Changes in the price of selected food commodities between January and November 2023 (%)

- Yam tuber – 79.1%, Plantain ripe – 80.3%
- Rice agric sold loose – 53.1%
- Vegetable oil – 36%
- Tilapia fish (epiya) fresh – 58% , Titus – 39.5%
- Maize grain white sold loose – 66.6%
- Tomato – 62.4%
- Beef boneless – 25.2%
- Garri white sold loose – 62.6%

Key insights and Outlook

- **The prices of all selected food commodities captured by the NBS rose significantly in November compared to January 2023**.
- Slow fiscal reforms and the absence of aggregate wage adjustment - **spurred by productivity, to address increase in prices may further squeeze consumer purchasing power in 2024.**

Source: NBS, PwC Analysis

The inflationary trend of 2024 is vested on the exchange rates, food prices, import bill...

Key Drivers of Inflation in Nigeria

Exchange rate

- Exchange rate pressure will persist as policy authorities implement actions to drive price stability.

Food prices

- The food inflation rate in November 2023 was **32.84% Y-on-Y, which was 8.72% points higher than the rate recorded in November 2022 (24.13%).**
- In **November 2023**, average price of **1kg rice, brown beans, and tomato increased by 73%, 45% and 67%** respectively compared to November 2022.
- The Food and Agriculture Organisation (FAO) projects that Nigeria may experience increased prices of staple foods such as rice, maize, cereals, etc. in 2024.

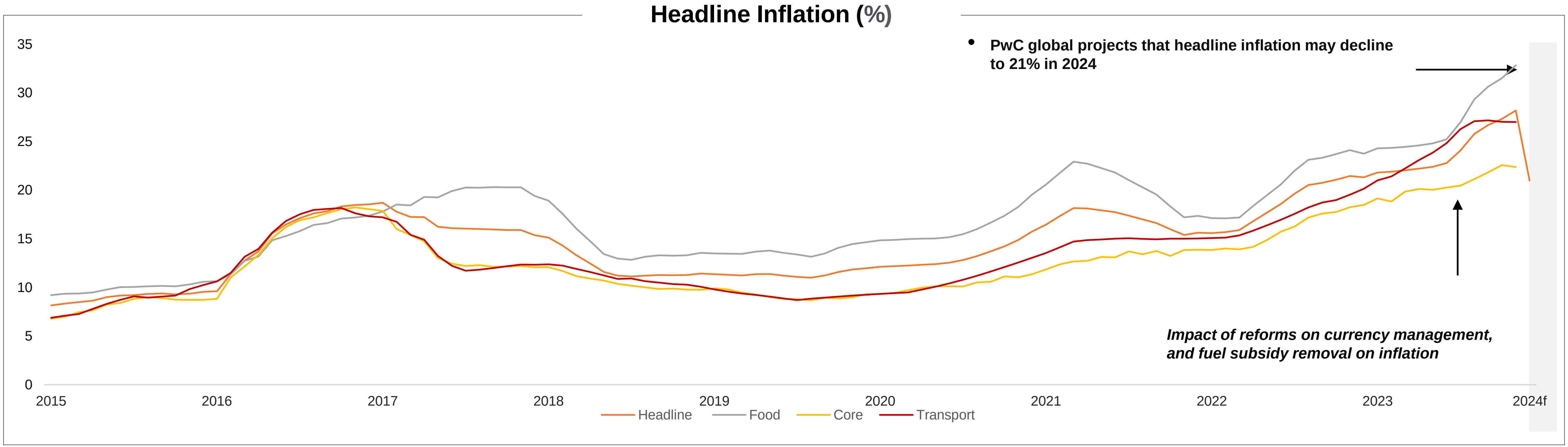
Energy and logistic prices

- **On a Y-on-Y basis, average transport rose by 64.44% from N637.10 in November 2022 to N1,047.63 in November 2023.**
- The average retail price per litre of petrol increased by over 200% from N202.48 in November 2022 to N648.93 in November 2023.
- The rise of energy and logistics costs stemmed from the discontinuation of fuel subsidy, higher international oil prices and naira devaluation against US dollar.

Key Insights and Outlook

- **In the short-term of 2024, inflation may reduce marginally, however, will remain double digit due to food prices, domestic energy costs and exchange rate pressures, which will weigh further on the purchasing power of consumers and the decisions of investors.**
- **However, inflation may experience modest reduction in the mid-term and long term of 2024 on the back of marginal gains from the ongoing fiscal reforms.**

Double digit inflation will persist in 2024 but will be lower than the peak experienced in 2023



Key Insights and Outlook

- Headline inflation rose steadily from January to December 2023 **reaching an 18-year peak of 28.92% in December, from 28.2% in November 2023.**
- **On Y-o-Y basis, the inflation rate increased by 7.58% points when compared to December 2022 inflation rate of 21.34%. The rise in inflation was fueled by food (33.9%) and transportation inflation (26.7%).**
- **The aggregate drivers of inflation in Nigeria include naira devaluation, increased food prices, high import bill, rising energy and logistic costs.**
- **We project that headline inflation may decline marginally to 21% in 2024.** The inflationary pressure in 2024 **maybe driven by a combination of the pass-through effect of the rise in international oil price (EIA forecasts that the average international oil price may be $93.24/b in 2024) on domestic energy cost and exchange rate pressures (S&P forecast that the average official exchange rate may be ₦859.14/$ in 2024).**

**EIA – Energy Information Administration*

Source: NBS, PwC Global

Drivers that will shape consumer demand in 2024 include inflation, poverty level, … (1/2)

Rising inflation	• Headline inflation rose steadily from January to December 2023 **reaching an 18-year peak of 28.92% in December, from 28.2% in November 2023. The rise in inflation was fueled by food (33.9%) and transportation inflation (26.7%).** • **The aggregate drivers of inflation in Nigeria include naira devaluation, increased food prices, high import bill, rising energy and logistic costs.** • PwC global projects that headline inflation **may decline marginally to 21% in 2024.** • **Consumer spending may remain pressured in 2024, decreasing non essential spending.**
Intervention spending	• The President initiated the **Renewed Hope Conditional Cash Transfer Programme** to mitigate the effects of fuel subsidy removal and address economic shocks. The program aims to assist **15 million Nigerians** by providing a cash transfer of **N25,000 per household for a three-month period.** • The World Bank disbursed **$299 million out of a $400 million** loan to the Federal Government for the Conditional Cash Transfer (CCT). **3.5 million Nigerians** had already received **N25,000** each through the program as of December, 2023. • This may **help cushion the effect of PMS subsidy removal in the short term**, however the impact on consumer demand may be **marginal relative to the inflationary pressure** that persist in the economy.
Poverty level	• World Bank projects that the share of Nigerians living below the international poverty line will **peak in 2024 at 38.8 per cent before beginning a gradual decline, as inflation cools down and economic growth picks up.**

Drivers that will shape consumer demand in 2024 include inflation, poverty level, ... (2/2)

Population and birth rate	• United Nations Population Fund estimates that Nigeria's birth rate in 2023 stood at **36.026 births per 1,000 people** while the estimated population was **223.8 million people.** • The projected birth rate for 2024 is **35.683 births per 1,000 people**, indicating a **0.95%** decline from 2023. The decline may be due to increased migration of the middle income class. • 43% of population are aged 15 years old and below, therefore economic productivity is unable to absorb their needs given the high inflation rate, low minimum wage and marginal economic growth.
Unemployment rate	• Unemployment rate grew to **4.2% in Q2 2023**, a **0.1 percentage point** increase from the figure recorded in **Q1 2023 (4.1 percent).** • Despite the low unemployment, structural defects still exist in the economy, **especially with respect to the national wage structure**, which is based on **monthly payment while the employment methodology deployed is based on an hourly work structure.** • Personal income of the workforce **may remain depressed and below inflationary growth rate**, **in the absence of an upward review of the national minimum wage.**

Improved sectoral development riding on reforms

Key takeaways

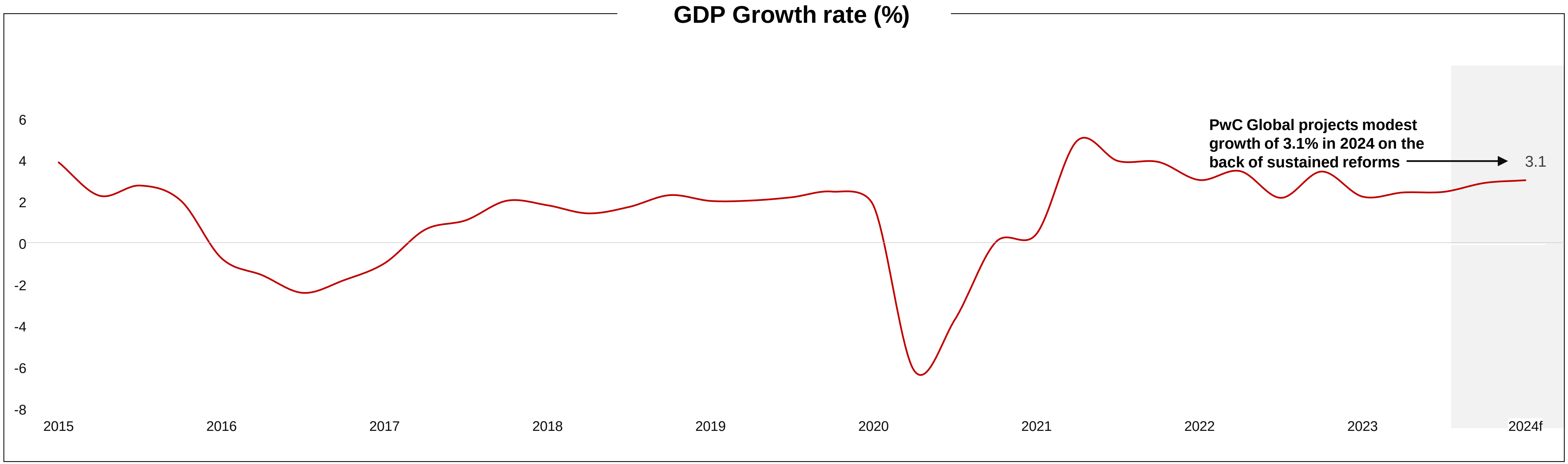
GDP may grow marginally by 3.1% in 2024 on the back of sustained policy reforms

- The growth projection is driven by ongoing reforms, recovering oil production, and proactive policy environment.
- Possible downside risk to projection include sustained rise in fiscal debt, elevated interest rates, high inflationary levels, foreign exchange liquidity pressures, high exposure to shocks in the global value chain, poor non-oil revenues and sector development.
- In terms of sectors, the main drivers of GDP growth in the last 12 months has been the financial services, information and communication, and utilities sector. We expect these sectors to continue to drive growth in the short term.

Sectoral growth opportunities will be driven by four key factors

- Sectoral growth may be driven by a combination of demand dynamics, investment, government reforms and trade dynamics.

GDP growth may grow marginally by 3.1% in 2024 on the back of sustained policy reforms albeit growth prospect limitations by elevated economic pressures

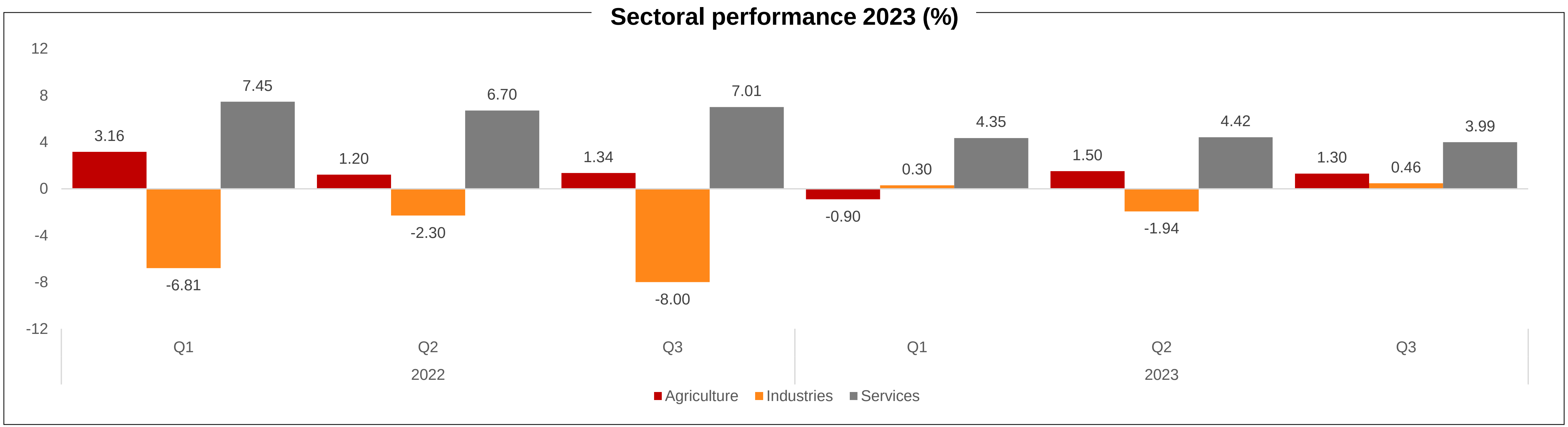


Key Insights and Outlook

- **GDP may grow marginally by 3.1% in 2024 on the back of sustained policy reforms albeit growth prospect limitations by elevated economic pressures.**
- The growth projection is driven by but not limited to ongoing reforms, recovering oil production, and a proactive policy environment. Possible risk to the projection include sustained rise in fiscal debt, elevated interest rates, high inflationary levels, foreign exchange liquidity pressures, poor non-oil revenues and sector development.
- In terms of sectors, the main drivers of GDP growth has been the financial services, information and communication, and utilities sector. **We expect these sectors to continue to drive growth in the short term.**

Source: NBS, PwC Global

Economic performance was subdued in 2023 with Services sector as the key driver of GDP growth



Key Insights and Outlook

- Performance of the GDP between Q1 and Q3 was driven mainly by the services sector, which contributed cumulatively 56% to the aggregate GDP.
- **The service sector recorded a growth of 3.99% in Q3 ahead of agriculture (1.3%) and industries (0.6%).**
- Although the growth in the services sector between Q2 and Q3 declined by 10%, the growth in Q3 was driven by trade (15%) , information and communication(13.5%), real estate (5%), professional, scientific and technical services (3.2%), and financial and insurance (3.9%).
- **Industrial sector growth was constrained by the performance of the oil & gas and manufacturing sub-sectors.** The industrial sector is stymied by structural challenges, FX challenges and insecurity in the Niger Delta region.
- **Agricultural sector growth decline by 14% to 1.3% from 1.5% may be attributed to insecurity challenges, climate change, institutional and infrastructure deficit.**

Source: NBS, PwC Analysis

Growth opportunities remain amid lingering currency pressures, escalating energy costs, and dampened consumer purchasing power

Dominant sectors

Fast growing	Slow and contracting
01 • Financial & insurance – 28.21% • Information and Communication – 6.69%	**02** • Manufacturing – 2.2% • Trade – 1.5% • Agriculture – 1.5% • Mining & quarrying (-1.96%)
03 • Arts & Entertainment– 4.5% • Construction – 3.9% • Accommodation & food services – 3.6%	**04** • Professional, scientific & technical services – 2.2% • Transportation & storage – (-35.85%)
Fast growing	Slow and contracting

Small sectors

Key insights and Outlook

- Financial Services and the Information and Communication sectors were the fastest growing sectors **at 28.21% and 6.69% respectively.**
- The growth of the Financial and Insurance sectors **may be attributed to the rise of interest income, digital transactions and forex revaluation gains.**
- **Contraction of the non-oil sector, particularly in the Trade, Manufacturing and Information and Communication sectors may be partly due to rising costs and lingering currency pressures.**

***Assumptions**

1. Sectors with more than or equal to N1trillion activity are classified as dominant economy while sectors below N1trillion are small sectors
2. Fast growing sectors are sectors with growth rate more than 3% while slow growth rate are below 3%

Source: NBS, PwC Analysis

Drivers that will shape the dynamics of the selected sectors in 2024

Sectors	Demand dynamics	Investment	Government Reforms	Trade dynamics
Power & Renewable Energy	• Customer base and metered users grew by 6.17% Y-o-Y and 10.40% respectively to 11.47 million and 5.47 million respectively in Q3 2023 • Despite this growth, metering and electricity accessibility gap still exists in 2024 **driven by non-cost reflective tariffs, lack of infrastructure investment, inefficient revenue collection, etc.**	• Power infrastructure gap given the 3% decline in available generation capacity from 4,341.87MW in Q3 2022 to 4,211.44MW in Q3 2023, a significant shortfall from the 2030 target of 20,000MW. • **$100 billion is the estimated investment required over a decade to address power challenges.**	• New Electricity Act grants constitutional authority to States to enact laws for **generation, distribution, and transmission of electricity within their boundaries, including territories formerly covered only by the national grid.** • Allocation of ₦264.2 billion in the 2024 budget.	• Nigeria exports electricity to Togo, Niger, and Benin Republic. As of Q3 2023, total amount due to Nigeria's GenCos was $11.16 million.
Agriculture	• Projected price increase for staple foods in West African region in 2024 driven by **production deficits, trade restrictions, insecurity in the Sahel, elevated global prices, high transaction costs, and currency depreciation.** • Nigerians experiencing food insecurity **grew to 148.7% in 2022. The trend may continue in 2024 if security challenges in food producing regions are left unaddressed.**	• Capital flows to agriculture sector declined Y-o-Y by **84.4% from $29.7 million to $4.64 million in Q3 2023.** • Agroclimatic challenges, insecurity, and rising production costs may continue to impact the sector.	• Plans to boost production via the National Agricultural Growth Scheme and Agropocket (NAGS-AP) with $134 billion facility from the African Development Bank (AfDB) for the cultivation of rice, maize, cassava, wheat, etc.	• Nigeria may remain net importer of agricultural goods in the long term due to structural issues. **As of Q3 2023, export of agricultural produce stood at ₦220 billion while imports stood at ₦643 billion.**

The direction of Impact

- Accelerate sector
- Stabilise sector
- Deepen sector

Source: NBS, CBN, REEEA-A, NEITI, UN, FAO, WFP, PwC Analysis

Drivers that will shape the dynamics of the selected sectors in 2024

Sectors	Demand dynamics	Investment	Government Reforms	Trade dynamics	
Oil and Gas	• Some refining operations have commenced but remain limited. For instance, Dangote refineries commenced refining in January with the production of diesel and aviation fuel.	• Additional Investment in the oil and gas sector due to new licenses and need to raise funds by government. • Deep offshore and marginal oil licensing bid rounds **may unlock additional investment in the sector.** • Locally, security in the oil producing regions may affect Nigeria's ability to meet OPEC production levels. **Nigeria lost ₦16.25 trillion between 2009 and 2020 to pipeline vandalism and crude oil theft.** • Exit of multinationals from onshore operations **may continue in 2024 especially with the sale of Shell's onshore Nigerian subsidiary.**	• Petroleum Industry Act in Nigeria to comprehensively reform and modernise the oil and gas sector • Decade of Gas policy expected to **deliver 10 projects, attract $14 billion in FDIs, raise $12 billion in revenue through royalties and taxes, and create 2 million jobs by 2030.**	• Risk in the global oil market and rising geopolitical tensions may continue to leave Nigeria exposed to shocks. • Global geopolitical factors will play an important role in the price of crude.	
Construction and Real Estate	• Nigeria's housing deficit is estimated at 28 million units while population expected to reach 223.8 million. • Despite huge housing deficit, demand for housing remains depressed **due to high rental and construction costs, as well as declining disposable incomes.**	• PwC estimates that Nigeria holds as much as $900 billion worth of dead capital locked up in residential real estate and agricultural land, including federal government's abandoned properties estimated at N230 billion.	• Proposed review of Land Use Act to streamline land administration and facilitate effective access to land acquisition processes.	• Value of *construction material exports in Q3 2023 was ₦22.9 billion, an increase of 7% over the value recorded in Q3 2022 (₦21.3 billion). This indicates rising global demand for construction materials. **Despite this, Nigeria remains a net importer of construction materials.**	

**Construction materials as used in the text include Articles of stone, plaster, cement, asbestos, mica, ceramic*

The direction of Impact

- **Accelerate sector**
- **Stabilise sector**
- **Deepen sector**

Source: NBS, CBN, REEEA-A, NEITI, UN, FAO, WFP, PwC Analysis

Drivers that will shape the dynamics of the selected sectors in 2024

Sectors	Demand dynamics	Investment	Government Reforms	Trade dynamics
Mining and Quarrying	• Quarrying may continue to dominate the mining sector in the medium term - with focus on granite, gravel, and marble for housing and real estate development.	• Sector's rate of contraction slowed to **-1.9%** in Q3 2023 from **-21.3%** in Q2 2023. **The improvement was due to the ease of licensure, policy reforms, and local demand.** • Nigeria possesses over 40 valuable minerals across 36 states, including strategic ones such as coal, iron ore, and limestone.	• National Integrated Mining Exploration Programme (NIMEP) to de-risk investment in the sector and provide geoscience data.	• Value of solid mineral exports in Q3 2023 was ₦41.61 billion, increase of 85.19% when compared to ₦22.47 billion recorded in Q3 2022 • **This indicates rising global demand for minerals from Nigeria.**
Finance & Insurance	• Digital transactions expected to grow financial sector activities in 2024. • The sector may continue to benefit from **rising interest income and revaluation gains in the short term**.	• The review of CBN licensing framework for payment service and deposit money banks **will create opportunities for new players to enter the industry.**	• **Planned recapitalisation of deposit money banks** (DMB) to enhance capital adequacy for supporting the $1 trillion economic strategy of the central government.	
Manufacturing	• Rising inflation, lower consumer purchasing power, global supply-chain bottlenecks, forex shortages **may continue to impact manufactured output in 2024**.	• Manufacturing sector capital flows grew Y-o-Y by **185% from $98.2 million in Q3 2022 to $279.5 million in Q3 2023.** • The demand drivers impacted manufacturing players in Q3 and Q4 2023 with major corporate exits from the sector. **We anticipate the trend may continue in the short term.**	• Successful implementation of fiscal reforms provided by the committee, could have a positive impact on the sector.	• Manufacturing exports may remain low as the country's export complexity is significantly skewed and concentrated on raw materials and commodities. • Opportunities abound to boost manufacturing exports with the **$3.4 trillion AfCFTA market potential**, if economic and structural challenges are addressed by the government.

The direction of Impact

- Accelerate sector
- Stabilise sector
- Deepen sector

Source: NBS, CBN, REEEA-A, NEITI, UN, FAO, WFP, PwC Analysis

Drivers that will shape the dynamics of the selected sectors in 2024

Sectors	Demand dynamics	Investment	Government Reforms	Trade dynamics	
Information and Communications	• Increased adoption of cloud computing, expansion of e-commerce, growth of mobile broadband, fintech, artificial intelligence, outsourcing, and the rising need for digital skills are opportunities that will shape 2024.	• Concurrently, under the National Broadband Plan (2020-2025), the objective for 2024 is to elevate the broadband penetration rate to **70% from the 50% benchmark set in 2023.**	• Strategic blueprint to review and implement 9 priority policy, regulatory and strategic initiatives including Nigeria, National Broadband Plan (2020-2025) National Policy on Telecommunications, Nigeria Startup Act, among others.		

The direction of Impact	
	Accelerate sector
	Stabilise sector
	Deepen sector

Source: NBS, CBN, REEEA-A, NEITI, UN, FAO, WFP, PwC Analysis

03

Outlook & Implications

Economic outlook for 2024

	Outlook
Broad economic growth outlook	• **GDP may grow marginally by 3.1% on the back of sustained policy reforms albeit 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	• **Inflation is expected to decline marginally** balancing the effects of reforms, policy actions, external pressures and food prices.

Source: PWC Global, PwC Analysis

Impact and implications on businesses in 2024

Impact area:	**Revenues may** recover	**COGS may stabilise**	**SG&A expenses may grow slower**	**Finance Cost** to increase
Drivers: (Non-exhaustive)	• **Consumer spending** recovery may begin in the second half of the year as inflationary pressures ease.	• Expected improved stability in the foreign exchange market in the second of the year may reduce **the imported cost of raw materials and finished goods**.	• The marginal decline in inflationary growth **may lead to a slight reduction in Selling, General, and Administrative (SG&A) expenses in the medium term**.	• **Continued tightening of monetary policy rate** may keep borrowing costs elevated in the short term.

Source: NBS, NNPL, CBN, PwC Analysis

04

PwC Economics Team Propositions

PwC Economics Team Proposition

01 **Help our clients and PwC network understand macroeconomic, mega trends, and ESG Development that is shaping local and global landscape**

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

03 **Help our client make decision on investment and risk**

04 **Help our client plan for future macroeconomic, mega trend 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

strategy&
Part of the PwC network

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