20 24 MACROECONOMIC OUTLOOK

THE NIGERIAN ECONOMIC SUMMIT GROUP

ECONOMIC TRANSFORMATION ROADMAP:

MEDIUM TERM POLICY PRIORITIES

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2024

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MEDIUM-TERM POLICY PRIORITIES

FOREWORD

In 2023, heightened global economic risks stemmed from persistent geopolitical crises, energy and food shortages, inflationary pressures, and a tightened interest rate environment, collectively accentuating worldwide economic vulnerability during the year.

Simultaneously, the Nigerian economy encountered increased uncertainties due to the demonetisation policy and the 2023 General Election. The advent of the new government ushered in substantial policy changes, encompassing swift fuel subsidies and exchange rate reforms. In the short term, these policy adjustments adversely affected the country's socioeconomic and macroeconomic outcomes, resulting in weakened economic growth as the Non-oil sector sustained the economy while the Oil sector languished in recession.

In retrospect, our Macroeconomic Outlook for 2023 underscored that Nigeria's growth trajectory minimally impacted the standard of living or socioeconomic indicators for a majority of the population. This highlights the imperative for reforms to foster inclusive economic growth and steer the economy towards a prosperous future. Achieving this objective necessitates a drive for significant economic transformation, strategically focused on fostering sustained long-term economic growth, catalysing job creation, and mitigating poverty.

The policy stance of the government signals an opportunity for Nigeria to address its myriad of socioeconomic challenges, optimise economic potential, and deliver favourable outcomes for its citizens.

In the NESG Macroeconomic Outlook for 2024, we underscore the importance of the government pursuing an economic transformation agenda to propel sustained high economic growth. The report presents a roadmap with step-by-step and phased approaches to reforming the economy to achieve economic transformation over the short to medium term. This underscores the urgent responsibility of the government, necessitating unwavering efforts to drive economic transformation and establish the groundwork for a lasting economic evolution that aligns with the people's aspirations and enhances their standard of living.

This report is designed with the overarching goal of offering substantive insights into Nigeria's economic transformation agenda. We earnestly desire that esteemed stakeholders within Nigeria's economic, business, and policy landscapes find this report to be an insightful and engaging resource. The findings and analyses herein will prove instrumental in informing strategic decisions and fostering a collaborative environment for sustainable economic growth and transformation.

Dr. Tayo Aduloju
CEO, NESG

Executive Summary

This report delves into the state of the Nigerian economy in 2023 and outlines a strategic plan for its transformation over the medium term. The document is structured into three main parts, offering a nuanced understanding of the current economic landscape, the proposed roadmap, and projections for 2024.

Part A: The Nigerian Economy in 2023.
The report begins with a detailed overview of the Nigerian economy in 2023, providing insights into its current status, challenges, and opportunities. This section lays the groundwork for understanding the context in which the proposed economic transformation roadmap will be implemented.

Part B: Economic Transformation Roadmap: Medium-Term Policy Priorities.
The centrepiece of this report is the Economic Transformation Roadmap, which is presented in three distinct phases. The "Inflection Points" section identifies potential turning points for the Nigerian economy, crucial for strategic decision-making. The phases - Stabilisation, Consolidation, and Acceleration - articulate the sequential steps and policy priorities for achieving a robust and sustainable economic transformation.

Part C: Nigeria in 2024: Outlook and Risk Assessment.
The final part of the report projects the outlook for the Nigerian economy in 2024 and the medium term. This forward-looking section relies on comprehensive analyses and forecasting methodologies to provide stakeholders with valuable insights into the anticipated economic trajectory, facilitating informed decision-making.

By combining a thorough analysis of the current economic state, a strategic roadmap, and future projections, this report aims to guide policymakers, business leaders, and other stakeholders in steering the Nigerian economy towards a trajectory of stability, consolidation, and, ultimately, acceleration.

The proposed medium-term policy priorities align with the government’s overarching goal of fostering sustainable economic growth and transformation.

Dr. Olusegun Omisakin
Chief Economist, NESG

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PART A:

The Nigerian Economy in 2023

Overview of the Nigerian Economy in 2023

At the commencement of 2023, the Nigerian economy faced notable challenges characterised by the rigorous implementation of demonetisation policies and a highly contested general election, contributing to the exacerbation of preexisting structural issues. These challenges, in turn, adversely affected the country's socio-economic landscape and macroeconomic performance. Nevertheless, the advent of the new government symbolised a transformative juncture, presenting political and economic opportunities for Nigeria to address its myriad of socio-economic challenges, optimise its potential, and attain crucial developmental objectives.

Furthermore, the persistent Russia-Ukraine crisis and the resulting disruptions in the global supply chain, alongside energy and food crises, accentuated economic vulnerability throughout the year. The hikes in the global policy rate in 2023 had consequential impacts on investment and productivity in Nigeria, exacerbating inflation rates and impeding economic growth. Additionally, the stringent reforms implemented by the government, including the removal of fuel subsidies and exchange rates alignment, further constrained the performance of the real sector, suppressing overall economic outcomes.

As a result, Nigeria's economic growth remained fragile in 2023, marked by escalating inflationary pressures, exchange rate depreciation, and fiscal constraints. The headwinds associated with growth in the year hindered productivity, curtailed the performance of the real sector, and diminished the positive impact of growth outcomes on the quality of life for Nigerians.

In light of this context, the following highlights the six predominant themes that underscored the socio-economic narrative of the Nigerian economy in 2023:

1. **Policies' impacts worsened economic growth in 2023**
2. **Inflation remained high amid stalled productivity**
3. **Fiscal sustainability faltered despite revenue growth**
4. **Monetary policy struggled with reining in soaring inflation**
5. **External trade position strengthened but was insufficient to bolster external reserves**
6. **The policy posture of the government sparked investors' confidence**

1. Policies' impacts worsened economic growth in 2023

Since the Nigerian economy rebounded from the recession induced by the pandemic, its growth has exhibited fragility. In 2023, the real Gross Domestic Product (GDP) growth averaged 2.5 percent in the initial three quarters, falling below the 3.0 percent recorded in the corresponding period of 2022 and the 3.1 percent for the entire year of 2022 (see Figure 1).

This deceleration was attributed to policy adjustments and reform shocks, prominently the implementation of the Naira redesign policy, resulting in a cash crunch that impacted various sectors, particularly the informal economy. Furthermore, eliminating fuel subsidies and harmonising exchange rates increased the costs associated with productive activities and strained the capacities of businesses across sectors.

The Non-oil sector retained its role as the primary driver of the economy, exhibiting a growth rate of 3.0 percent and contributing 94.3 percent to the total real GDP in the first three quarters of 2023. Conversely, the Oil sector remained in recession, contracting by 6.2 percent due to persistent oil theft, ageing infrastructure, and insufficient investments.

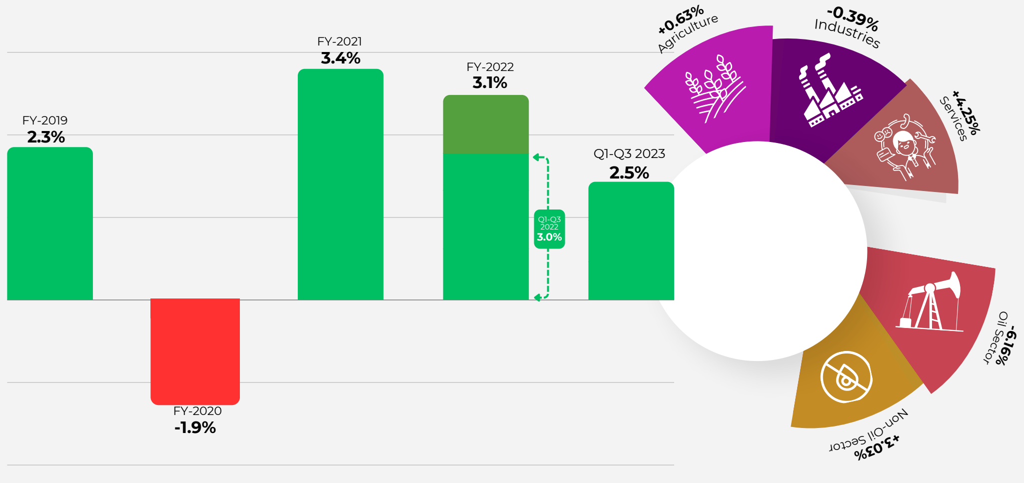
The Oil sector's performance also had repercussions on the Industrial sector, which experienced a contraction of 0.4 percent. Meanwhile, the Services and Agricultural sectors, pivotal pillars of the Nigerian economy, exhibited subdued growth rates of 4.3 percent and 0.6 percent, respectively.

Figure 2 depicts Nigeria's sectoral growth analysis in 2023 (first three quarters), categorising economic sectors into Growth Drivers (substantial GDP contribution, high growth, and dominant impact on overall growth), Growth Stagnators (suboptimal contributions to overall growth relative to GDP share), and Growth Draggers (contracting and hindering overall growth).

Notable Growth Drivers include the Financial, ICT and Trade sectors, contributing significantly to GDP and overall growth. Conversely, Agriculture, Real Estate, Construction and Manufacturing are identified as major Growth Stagnators due to subdued growth. The Transport sector and Oil and Gas serve as Growth Draggers, contracting and suppressing overall growth.

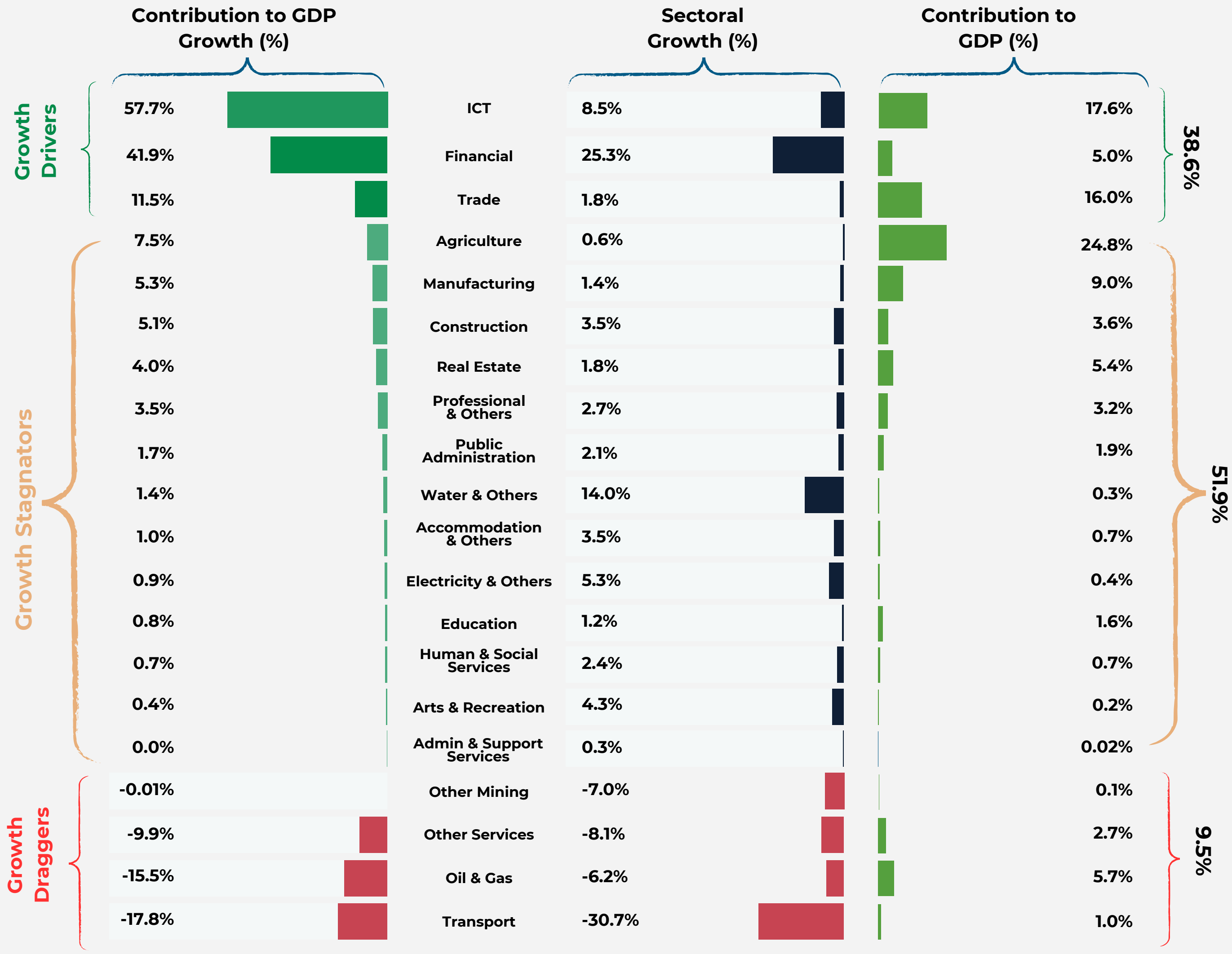
In conclusion, economic growth performance worsened due to the downside effects of the government's reform initiatives.

Figure 1: Real GDP Growth Trend (Percent)



Data: NBS, Calculations & Chart: NESG Research

Figure 2: Sectoral Performance in 2023 (Q1-Q3)



Data: NBS, Calculations & Chart: NESG Research

2. Inflation remained high amid stalled productivity

In 2023, Nigeria witnessed an unprecedented surge in the inflation rate, reaching an 18-year high of 28.9 percent as of December 2023, with an average of 24.5 percent for the year (see Figure 3). The enduring inflationary pressures stemmed from global supply chain disruptions resulting from the prolonged Russia-Ukraine conflict, heightened energy prices, and food scarcity. Domestically, challenges such as disrupted planting activities, fuel subsidy removal, exchange rate depreciation, and escalating logistic costs had substantially increased business operating expenses and impeded overall productivity.

Despite the potential to enhance local food and livestock production, Nigeria relied heavily on imported agricultural goods to fulfil growing domestic demands. This dependence not only strained available foreign exchange reserves but also contributed to an escalation of imported inflation due to the depreciation of the local currency. Imported food inflation averaged 20.4 percent in 2023, up from 17.8 percent in 2022. Moreover, impediments such as currency shortages, insecurity, and supply chain disruptions impeded farming activities, exacerbating the impact on food inflation, which rose to 33.9 percent in 2023.

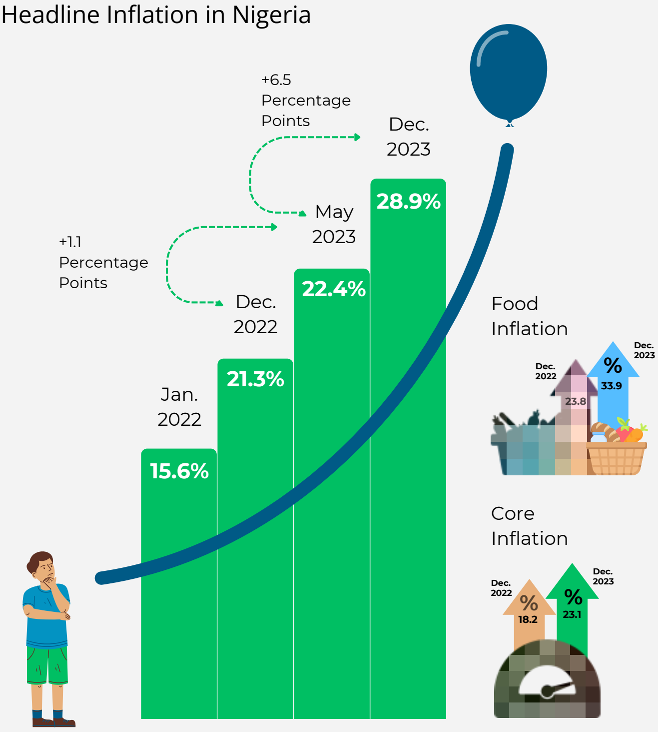
The elimination of petrol subsidies also precipitated direct effects on fuel and transportation costs, influencing both food and non-food prices, as evidenced by the upward trajectory of inflation indices (see Figure 3).

In conjunction with elevated global energy prices, the removal of petrol subsidies significantly escalated production expenses for a majority of Micro, Small, and Medium Enterprises (MSMEs) that heavily depend on petrol as a primary input. Furthermore, the expansion of the Central Bank of Nigeria's (CBN) Ways and Means mechanism contributed to inflation by enlarging the money supply, thereby intensifying pressure on the Naira's value and eroding the purchasing power of the populace.

Consequently, approximately fourteen million Nigerians descended into poverty in 2023 due to diminished purchasing power resulting from high inflation, as reported by the World Bank.

Figure 3: Inflation Rate Movement in 2023

Headline Inflation in Nigeria



Data: NBS, Calculations & Chart: NESG Research

N.B Core inflation is calculated using All Items less Farm Produce and Energy

3. Fiscal sustainability faltered despite revenue growth

Nigeria witnessed an upturn in revenue, attributed to sustained high crude oil prices amid the Russia-Ukraine conflict, notwithstanding challenges in domestic oil production. The expeditious removal of fuel subsidies by the new administration and the harmonisation of foreign exchange market rates further propelled growth in oil revenue. This was achieved by redirecting funds previously allocated for fuel subsidy payments, which significantly enhanced the government's earnings from crude oil.

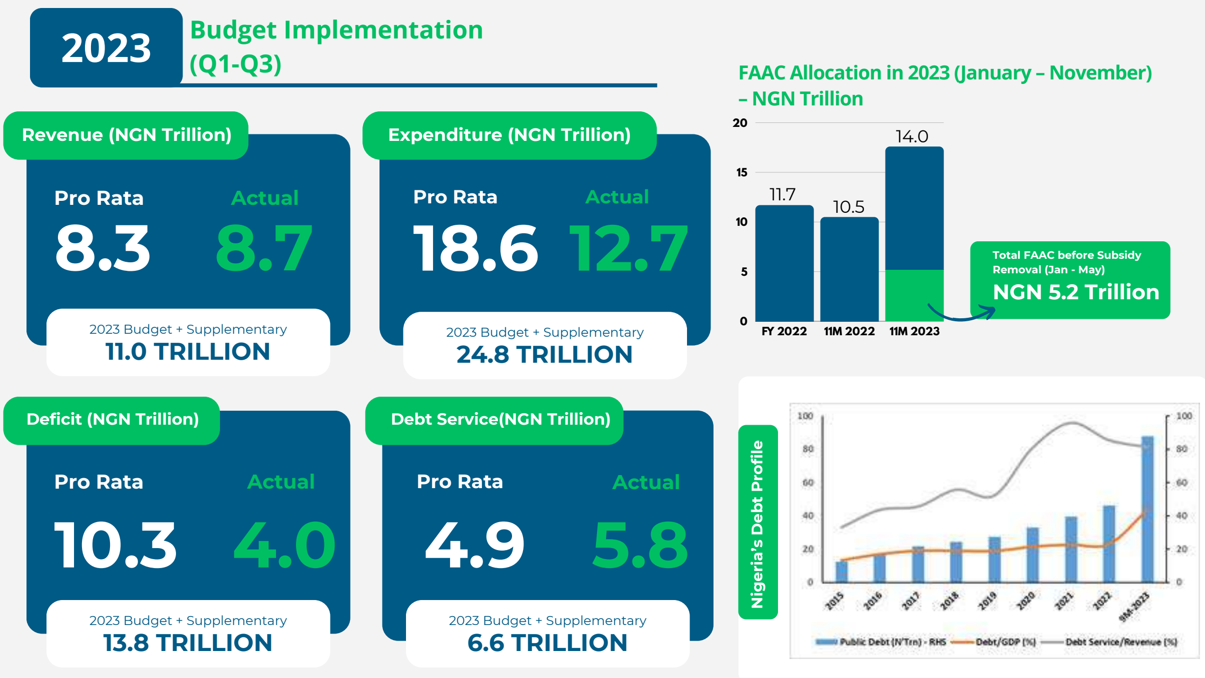
The gross revenue of the Federal Government reached N12.75 trillion in 9M-2023, surpassing the N8.63 trillion recorded for the entire year of 2022. FAAC disbursements in the initial eleven months of 2023 experienced a notable surge of 33.3 percent, rising to N14.0 trillion from N10.5 trillion in 2022 (see Figure 4). This pronounced increase in FAAC disbursement was directly linked to the removal of fuel subsidies.

Consequently, the actual revenue of the Federal Government for the first nine months exceeded its budget projections by 4.8 percent, marking a noteworthy achievement, the first of its kind in the last decade.

Despite the commendable revenue performance, Nigeria's fiscal space remained fragile, as evidenced by the Federal Government's expenditure underperformance of 31.7 percent, affecting all fiscal policy indicators except debt service (see Figure 4). Debt service constituted 45.6 percent of total spending and 80.9 percent of revenue, constraining capital spending crucial for growth to a mere 11.6 percent of government expenditure.

The fiscal deficit in the period was N4.0 trillion, marking a substantial 61.2 percent below projections. The securitisation of the CBN's Ways & Means and the impact of Naira devaluation on external debt contributed to Nigeria's debt expanding to N87.9 trillion by the close of Q3-2023, equivalent to 43.8 percent of GDP.

Figure 4: Fiscal Environment in 2023



Data: Budget Office, DMO & NBS, Calculations & Chart: NESG Research

4. Monetary policy struggled with reining in soaring inflation

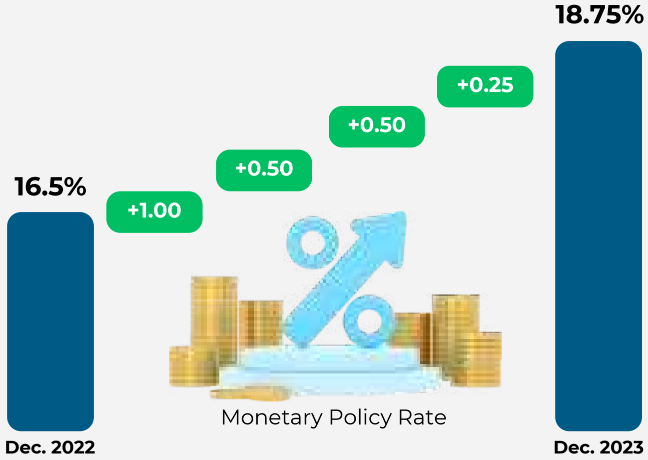
While many central banks globally contemplated dovish policies amidst easing inflation, Nigeria faced mounting inflationary pressures, impeding any inclination to reduce its Monetary Policy Rate (MPR). Throughout 2023, the Monetary Policy Committee (MPC) consistently raised the MPR over four successive meetings, concluding the year at 18.75 percent (see Figure 5A). Meanwhile, other parameters, such as the Cash Reserves Ratio (CRR) and Liquidity Ratio, remained unchanged at 32.5 percent and 30.0 percent, respectively. Moreover, the asymmetric corridor around the MPR was adjusted to +100/-300 basis points from +100/-700 basis points.

Since inflationary pressure primarily arose from productivity constraints rather than monetary factors, monetary interventions faced challenges in curbing the escalating inflation. Despite rate hikes and the utilisation of unconventional methods like demonetisation, high inflation persisted throughout 2023. Demonetisation disrupted business activities, notably impacting the first farming season due to the cash crunch associated with the Naira redesign policy.

The CBN also implemented an exchange rate unification policy in the second quarter of 2023, consolidating all official rates into the Investors & Exporters (I&E) window. This move prompted a significant Naira depreciation, with the Naira/Dollar rate climbing from N449.0/US$ in January 2023 to N907.1/US$ by the end of the year. Subsequently, the parallel market rate fluctuated between N750/US$ and N1260/US$. This and fuel subsidy removal fuelled inflation as both factors were mutually reinforcing.

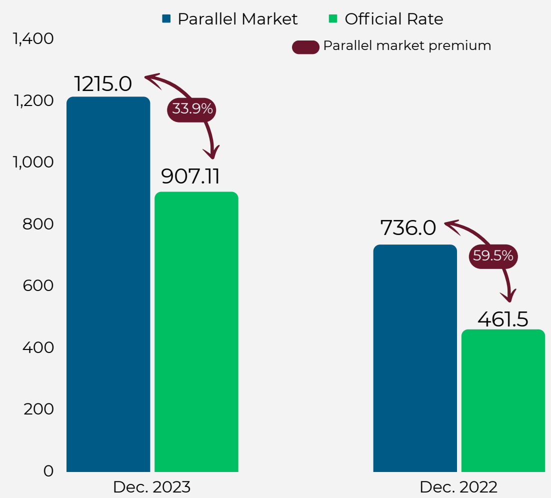
The persistent inflationary pressure resulted in a hawkish monetary policy stance. Continuous increases in the policy rate might pose risks, as evidence suggests that it is not effective in curbing inflation but rather restricting capital access, hindering business performance, and potentially straining the financial system.

Figure 5A: Monetary Policy Rate in 2023



Data: CBN, Calculations & Chart: NESG Research

Figure 5B: Exchange rate movement in 2023



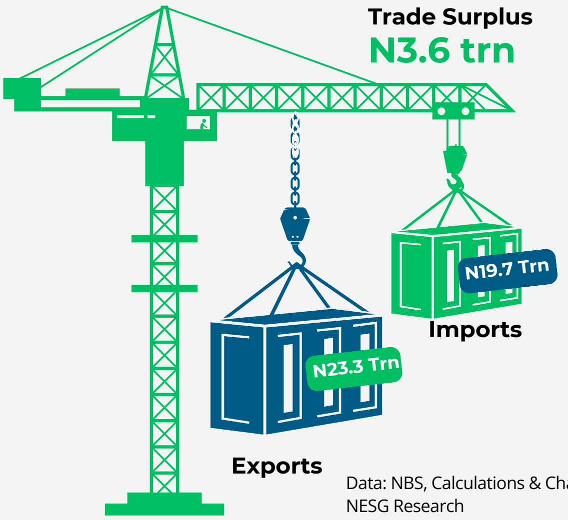
Data: CBN & Other Media, Calculations & Chart: NESG Research

5. External trade position strengthened but was insufficient to bolster external reserves

Nigeria's trade balance improved in the first three quarters of 2023, with imports at N19.74 trillion, down by 2.5 percent from the same period in 2022. Reduced imports of machinery and transport equipment, affected by higher import duties on vehicles, contributed to this decline. Meanwhile, high crude oil prices boosted exports, which expanded by 13.9 percent to N23.27 trillion in the same period. Additionally, agricultural exports surged by 82.5 percent compared to 2022, driven by increased support for non-oil export expansion.

Figure 6A: Nigeria's External Trade Performance

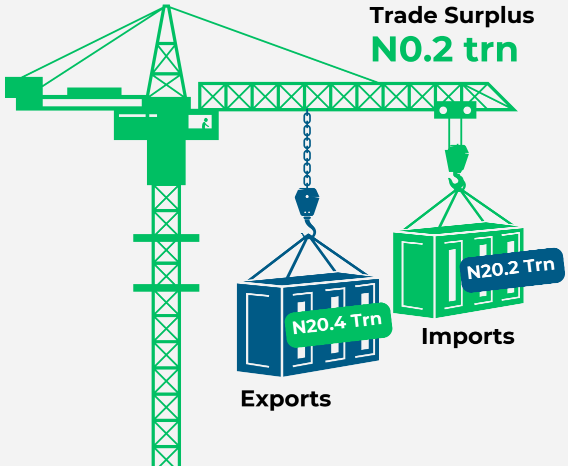
(i) 2023 (Q1-Q3)



Data: NBS, Calculations & Chart: NESG Research

The year saw an improved external balance as exports surpassed imports. This led to an expanded trade surplus of N3.6 trillion in the first three quarters of 2023, compared to N209.43 billion in 2022. The current account shifted to a surplus of N2.80 trillion, a significant increase from the current account deficit of N571.42 billion in 2022.

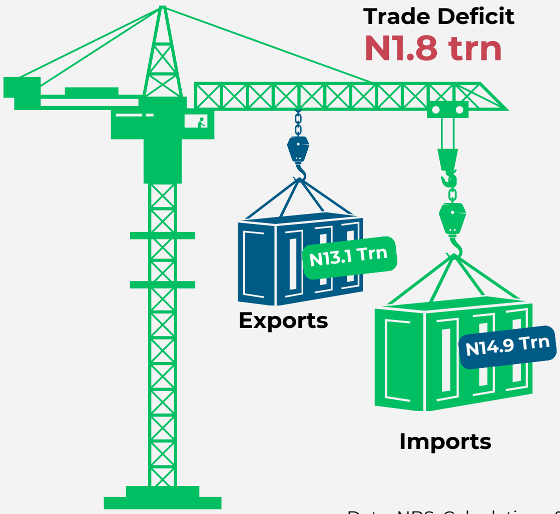
(ii) 2022 (Q1-Q3)



Data: NBS, Calculations & Chart: NESG Research

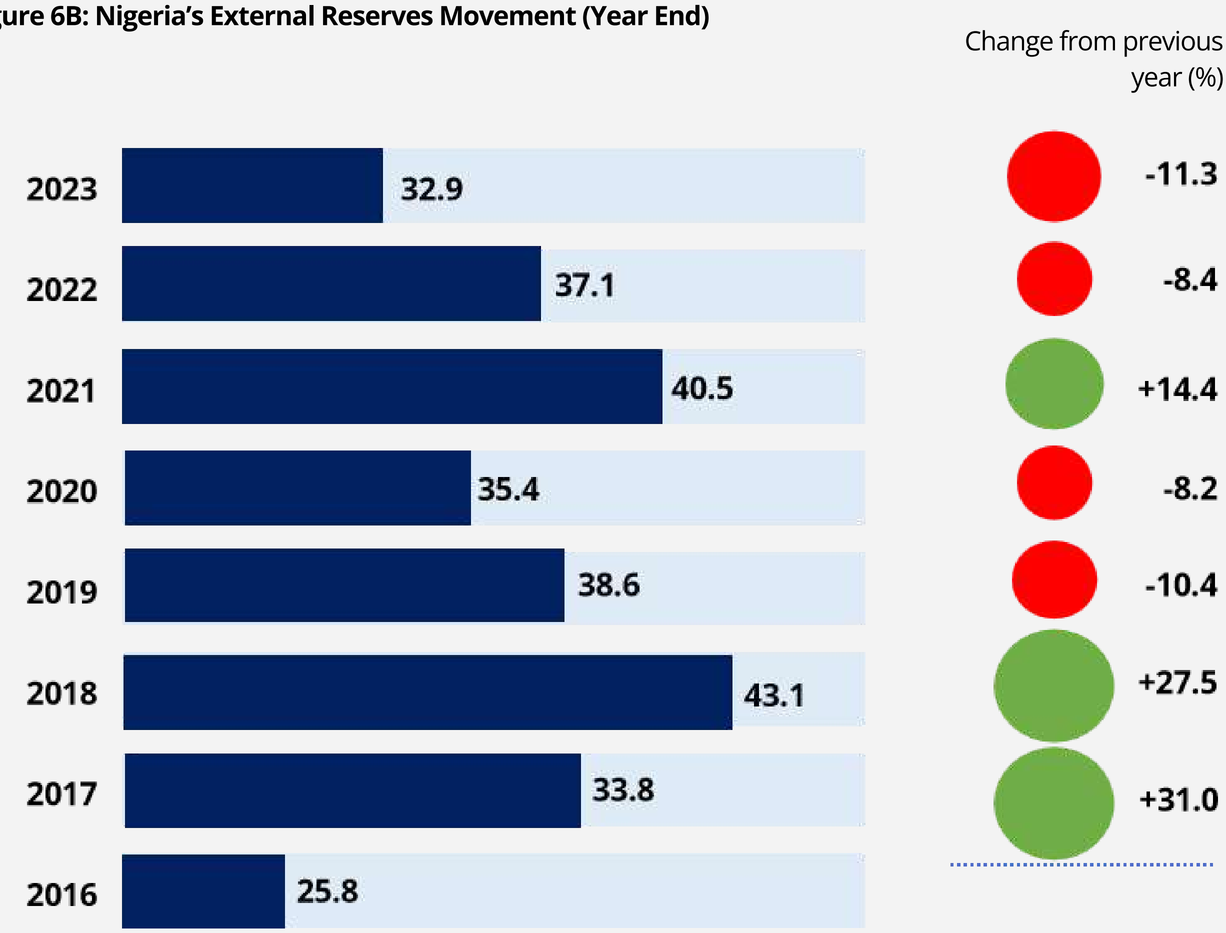
Despite these improvements, stability in Nigeria's foreign exchange market and the growth of foreign reserves remained elusive. Reserves declined by 11.3 percent to US$32.9 billion as of December 2023. While still covering over six months of imports, ongoing depletion and leveraging against reserves raised concerns about their ability to sustain the economy.

(iii) 2021 (Q1-Q3)



Data: NBS, Calculations & Chart: NESG Research

Figure 6B: Nigeria's External Reserves Movement (Year End)



Data: CBN, Calculations & Chart: NESG Research

6. The policy posture of the government sparked investors' confidence

The policy stance of the government rejuvenated confidence in Nigeria's financial market. Swift and decisive reforms, including removing fuel subsidies and harmonising the foreign exchange market rates, attracted domestic and foreign investors to the capital market. Consequently, the Nigerian equities market witnessed a remarkable surge, breaking records to an unprecedented 70,000 index points, surpassing the previous high of 66,371.20.

In 2023, the Nigerian Exchange All Share Index (NGX-ASI) experienced a robust gain of 45.9 percent, delivering N13 trillion in additional value to equities investors. Despite this substantial growth, the market was predominantly driven by domestic investors, as foreign investor participation decreased significantly.

However, the sentiment in the fixed-income market was bearish in the year, with yields remaining elevated. This trend results from a prolonged high-interest environment in developed countries, which drives investors to seek higher interest rates as a risk premium for investing in Nigerian financial instruments. Consequently, recent primary market auctions for FGN Bonds and Treasury Bills witnessed a significant rise in the rates set by the government.

Nevertheless, Nigeria's capital importation performance remained subdued. In the first three quarters of 2023, total capital importation amounted to US$2.82 billion, marking a 34.0 percent decrease from the corresponding period in 2022. This decline can be attributed to a 49.6 percent drop in Foreign Direct Investment (FDI) and a 60.9 percent contraction in Foreign Portfolio Investment (FPI).

Despite efforts by the government, anticipated investment has yet to materialise, possibly due to a delayed effect of crucial reforms. It is important to enhance clarity and transparency in the reform process to bolster investors' confidence.

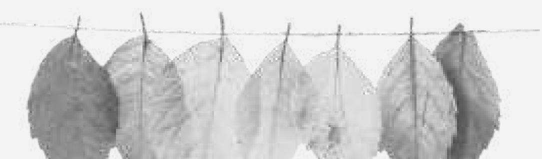
Figure 7: Nigeria's Capital Market Performance

Data: NGX, FMDQ, NBS; Chart: NESG Research

Table 1: Capital Importation in Nigeria (US$'Mn)

	2021 (Q1-Q3)	2022 (Q1-Q3)	2023 (Q1-Q3)
Foreign Direct Investment (FDI)	340.55	383.85	193.40
Portfolio Investment (FPI)	2,742.72	2,156.98	843.24
Other Investment	1,429.61	1,727.33	1,780.87
Total Foreign Capital Inflows	4,512.88	4,268.16	2,817.51

Data: NBS, Calculations: NESG Research



Conclusion

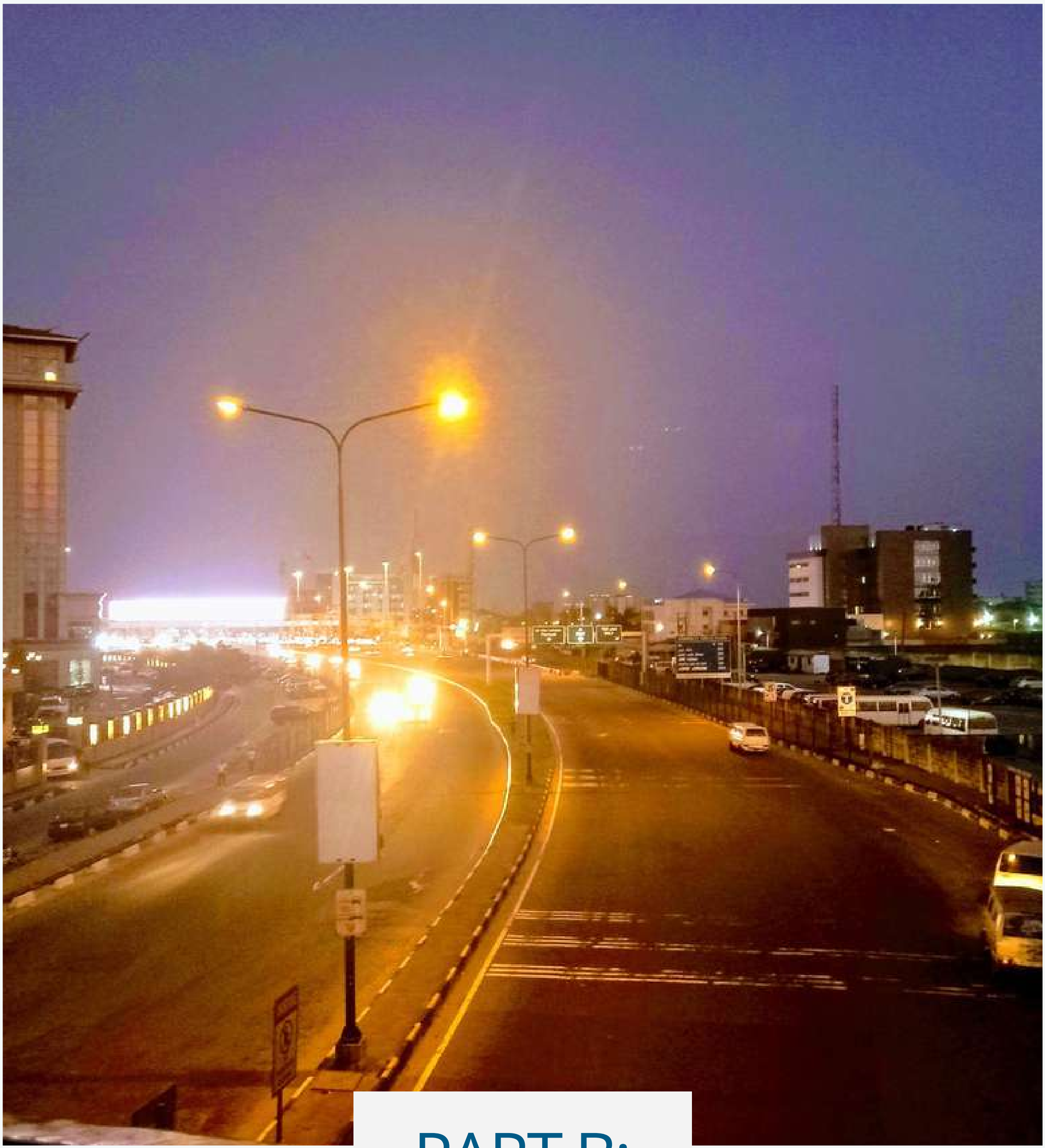
The commencement of 2023 marked a period of uncertainty for Nigeria's economy. The nation witnessed a fiercely contested presidential election and the implementation of a demonetisation policy, both of which accentuated existing structural challenges. Furthermore, the advent of the new government, coupled with its swift fuel subsidies and exchange rate reforms, heightened pressures in the real sector and suppressed overall economic outcomes.

As a result of the aforementioned challenges, economic growth experienced a downturn in 2023, with most sectors underperforming compared to the preceding year. The Naira redesign policy, introduced by the CBN earlier in the year, led to a cash crunch, adversely affecting productive activities. Additionally, the combined impact of removing fuel subsidies and harmonising exchange rates placed significant strains on businesses' productive capacities across various sectors as operational and production costs soared.

Nevertheless, the Non-oil sector remains the backbone of Nigeria's economy, sustaining growth, while the Oil sector continues to grapple with a recession, consequently suppressing industrial output.

Although Nigeria's external trade position showed improvement, it remained relatively fragile, falling short of providing the necessary economic buffer against external and local shocks and vulnerabilities. In addition, at the domestic level, there was a gradual resurgence of investor confidence in the economy.

However, policy constraints, particularly the perceived limitations of the CBN in curbing inflationary pressures, persisted throughout the year. Nonetheless, the fiscal authorities exhibited a commitment to reforms, promptly implementing significant policy shifts that influenced productivity, business performance, and the trajectory of crucial macroeconomic and socio-economic indicators within the country.



PART B:

Economic Transformation Roadmap: Medium-Term Policy Priorities

Introduction

Despite its abundance of human capital and vast economic resources, Nigeria's current standing on crucial socioeconomic indicators lacks lustre, prompting the need for a transformative trajectory towards a more promising future.

In the context of development economics, economic transformation entails a dynamic reallocation of resources, strategically shifting from less productive to more lucrative sectors. This process involves inter-sectoral and intra-sectoral changes, fostering diversification at the macroeconomic level and compelling enterprises and households to acquire novel capabilities for competitive engagement in expanded markets.

The economic transformation process is characterised by inclusive income distribution, resilience against market fluctuations through diversification, and a significant boost in opportunities for comprehensive socioeconomic advancement.

Nigeria's recent economic performance discloses a consistent weakness in real GDP growth, fluctuating between 2.0 and 3.5 percent since the recovery from the COVID-19 pandemic. Factors such as oil price fluctuations, low productivity, and insufficient investments hinder optimal growth, falling short of the necessary progress for Nigeria's envisioned economic transformation.

This predicament poses challenges as a foundation for inclusive development. Economic transformation is an economic imperative and a moral responsibility for the government and stakeholders, aiming to empower and secure a prosperous future for the Nigerian populace.

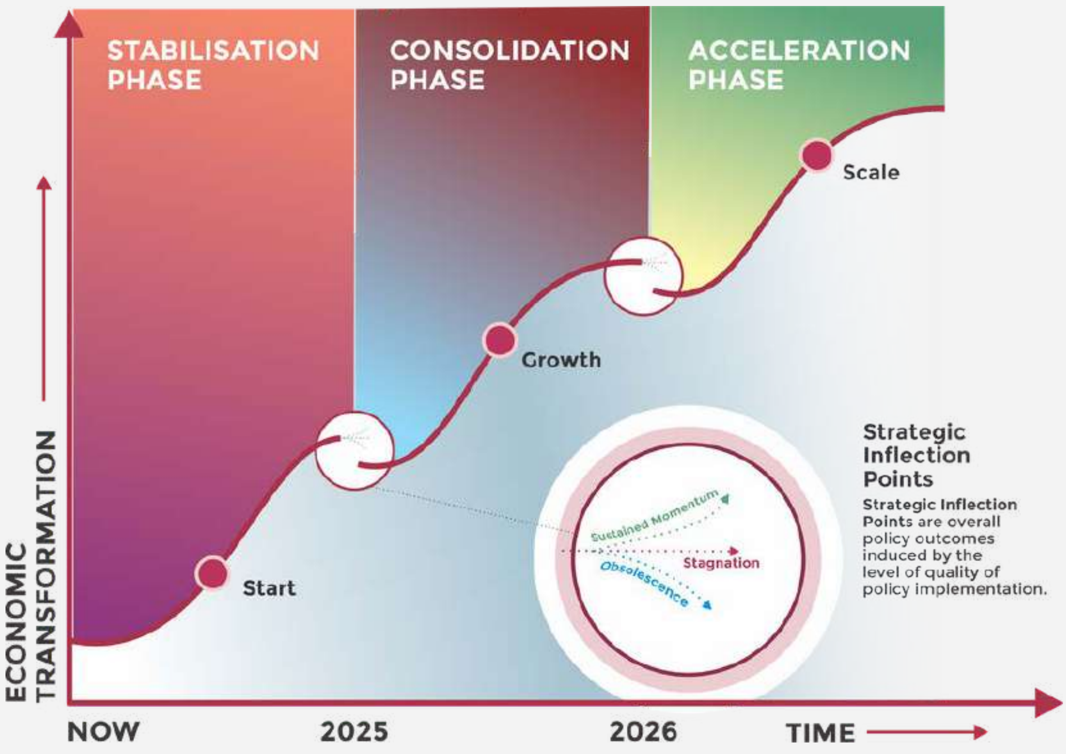
Emphasising the critical importance of delving into Medium-Term Policy Priorities, the Economic Transformation Roadmap charts a course to address these challenges, outlining strategic initiatives and policy directives geared towards fostering sustainable economic growth. This roadmap serves as a compass for guiding Nigeria through the intricacies of policy implementation, thereby propelling the nation towards its envisioned economic transformation.

Economic Transformation Roadmap

In the present moment, Nigeria finds itself at a crucial intersection, demanding bold and decisive actions to propel economic transformation—more than mere plans, which calls for a defined economic philosophy. The urgency of Nigeria's economic transformation is not just a wish; it is an imperative to unlock the nation's latent potential and ensure a prosperous future for all citizens. For the current administration steering the country, the year 2024 represents a transformative window, offering an opportunity to guide the nation towards an inclusive and resilient economic trajectory.

Piloting the country through the economic transformation journey demands strategic planning and rigorous policy implementation on the one hand. On the other hand, substantial investments and unwavering commitment from the private sector will help to foster lasting and fair economic development. In this section. we explore a detailed roadmap with distinctive but complementary phases, success factors and critical policy recommendations to ensure the country achieves a transformed economy and, in turn, improve Nigeria's socio-economic outcomes in the short and medium term. These phases are the Stabilisation Phase, Consolidation Phase and Acceleration Phase.

Figure 8: Economic Transformation Roadmap for Nigeria



Adapted from McKinsey (2021)

The proposed roadmap offers a comprehensive strategy for achieving economic transformation in Nigeria by delineating key focus areas and envisioning potential outcomes through policy implementation. From an impact perspective, the success of policy implementation and the attainment of Stabilisation Phase goals will significantly influence the success of subsequent phases.

The Stabilisation Phase goals promise a substantial immediate and short-term impact. This phase aims to address the instability of macroeconomic indicators such as inflation rate, GDP growth, fiscal balance, and exchange rate, steering the country towards economic recovery—an essential starting point for the medium-term economic transformation journey.

The Consolidation Phase will activate growth factors and enablers, including liberalisation reforms, institutional development and strengthening, policy and regulatory harmonisation, and investment promotion. Simultaneously, the Acceleration Phase will outline imperatives for triggering long-term economic transformation.

While the roadmap outlined in this report may not comprehensively address all issues, it serves as a detailed guide with a step-by-step and phased approach to key policy and economic strategies for government consideration. Importantly, it identifies critical success factors and establishes targets or threshold performance for these factors. This integrated performance measurement, monitoring, and evaluation framework will provide insights into what unfolds at the Inflection Points at the conclusion of each phase of the economic transformation pathway.

Stabilisation Phase

Economic stabilisation is a foundational requirement for fostering sustainable economic growth. As evidenced by the development experiences of many countries, economic stabilisation establishes an environment conducive to enhanced productivity and propels rapid economic growth and social improvement. Therefore, a stable macroeconomic environment is a crucial starting point for attaining high investment levels and supporting infrastructure development, promoting job creation and improved living standards within an economy.

On the policy front, economic stabilisation policies are crafted to address persistent deviations in production, prices, and risks from their average performance or trends. Frequently deployed measures include adjustments in key interest rates, increasing central bank liquidity offers, boosting public spending, and income tax reliefs. For Nigeria, the Stabilisation Phase entails creating a sophisticated framework for fiscal and monetary policies collaboration to mitigate macroeconomic volatility, foster economic growth, and enhance the overall welfare of the citizens.

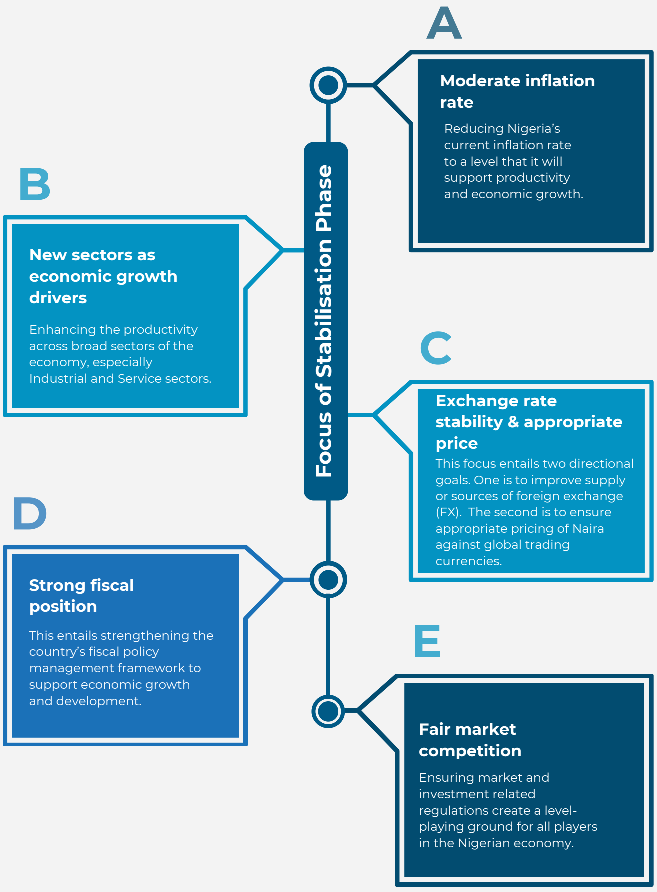
The primary goal of the Stabilisation Phase is to unlock binding constraints that inhibit productivity and to achieve low inflation, high economic growth, and a stable exchange rate. These conditions are essential prerequisites for attracting more elevated levels of domestic and foreign investments and fostering sustainable economic growth.

Focus of Nigeria's Stabilisation Phase

During this phase, there is no universally prescribed sequence for policy focus. However, given Nigeria's developmental needs, prioritising macroeconomic stabilisation early on emerges as the paramount necessity. It is widely acknowledged that growth-enhancing policies are most effective in a stable macroeconomic environment.

Therefore, enhancing the country's macroeconomic conditions should be the top priority for the Nigerian government, encompassing both fiscal and monetary authorities. Figure 9 provides specific insights into the core focuses of Nigeria's Stabilisation Phase.

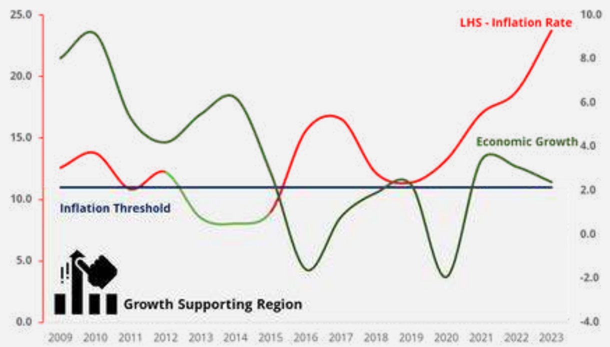
Figure 9: Focus of Stabilisation Phase



A. Moderate Inflation Rate

Prices serve as effective coordination mechanisms, harmonising the dynamics of demand and supply to establish stable market conditions. The price level is crucial in coordinating and facilitating the determination of interest rates (cost of funds), investment, and production decisions. A stable general price level (maintaining a low inflation rate) alleviates excessive pressure from imbalances between an economy's aggregate demand and supply.

Figure 10: Performance association between Economic growth and inflation rates (annual)



Data: NBS, Chart: NESG Research

Nigeria's high inflation rates in recent years have eroded the purchasing power of incomes and continually dragged economic growth and productivity (see Figure 10). This phenomenon underscores the 'money illusion syndrome,' where a country or economic units, like businesses and households, might be content with a nominal increase in relevant economic variables without realising that the real value of these variables has substantially decreased due to rampant inflation. Thus, managing Nigeria's escalating inflationary pressure is crucial to promote economic stability and achieve sustained growth.

Empirically, evidence from the literature suggests that Nigeria's actual level of inflation of below 11 percent (maximum) would support and sustain high growth in output level (GDP) and the economy will undoubtedly perform better with a single-digit inflation rate (Bawa & Abdullahi, 2012; Khan & Senhadji, 2001). Ensuring that the inflation rate is below 11 percent, thus, should become a significant focus for the Nigerian government in the medium term (2024-2026) as this position also aligns with the CBN’s inflation target of 6-9 percent. Achieving this target is instructive as in the last decade and a half, Nigeria's economic growth has been high and stabilised when it had an inflation rate below the threshold. Addressing several factors such as escalating food prices, high energy and transportation costs, security challenges, and environmental shocks like flooding, driving surges in inflationary pressure is the core target for Nigeria in the period.

Some economic outcomes of achieving a low inflation rate in Nigeria are highlighted below.

Key Economic Outcomes of a Low Inflation Rate Regime

Domestic financial market stability	Lower inflationary pressure will improve Nigeria's financial market's asset quality and solvency ratios, including the banking sector. In addition, the cost of funds for the private sector and government would also reduce drastically, hence improving overall productivity and job creation capacity of the economy.
Exchange rate stability	Moderated levels and stable inflation rates will strengthen the country's current account and improve capital inflows. This would stem from limited and stable appreciation or depreciation of Naira against leading trade currencies.
Output growth stability	Reduced volatility of the growth trend and improved productivity across key sectors, especially agriculture and industrial sectors.

B. New Sectors as Economic Growth Drivers

Nigeria's economic growth heavily relies on a small number of sectors, mainly Agriculture, ICT, Trade, Oil and Gas, Manufacturing, and Real Estate. These sectors drive most of the country's GDP, while the other 14 sectors struggle to contribute significantly. Concentrating economic opportunities and prosperity within these limited sectors leads to diminishing returns to socioeconomic outcomes as these sectors' expansion creates fewer opportunities for growth and prosperity (see Figure 11A).

The lack of prosperity stems from low productivity and growth across multiple sectors of Nigeria's economy. Over the past six years, only a fraction of the productive sectors exhibited positive average growth, while the majority faced negative growth. Remarkably, only ICT and Agriculture among the major sectors experienced positive growth, with the rest recording negative growth trends. Furthermore, the contributions of the growing sectors to overall prosperity are limited due to their relatively small shares of the GDP.

Turning the situation for the good in the immediate term and better within the medium-term period requires changing the economy's structure. This change in the economic system means creating new economic growth drivers, i.e., diverting from traditional sectors to new ones, that would strengthen Nigeria's economic growth and promote stable economic activities that support massive job creation and equitable economic opportunities. The implications of the enhancement of new growth drivers are far-reaching: it would address Nigeria's lack of economic diversification, resolve factors that hamper job creation and poverty reduction efforts, increase the economy's resilience, improve economic competitiveness, and drive the growth of value-added and complex products.

Other economic outcomes of transforming more sectors as economic growth drivers in Nigeria are highlighted below.

Key Economic Outcomes of Creating New Economic Growth Drivers

High economic growth	The country needs at least a 7.5 percent annual growth rate to outpace population growth and address the backlog of prosperity due to sluggish growth in recent years. Achieving robust industrial and manufacturing sector growth at over 8 percent annual growth rate would help attain this high economic growth.
Massive job creation	Emphasising the need for substantial growth in the industrial and manufacturing sectors to drive industrialisation and create employment opportunities to address Nigeria’s unemployment issues.
Broad Sectoral Growth	All sectors, not just industrial and manufacturing, should contribute to prosperity by achieving a minimum growth rate of 5 percent.

Figure 11A: Nigeria's Economic Structure and Performance Between 2010-2022

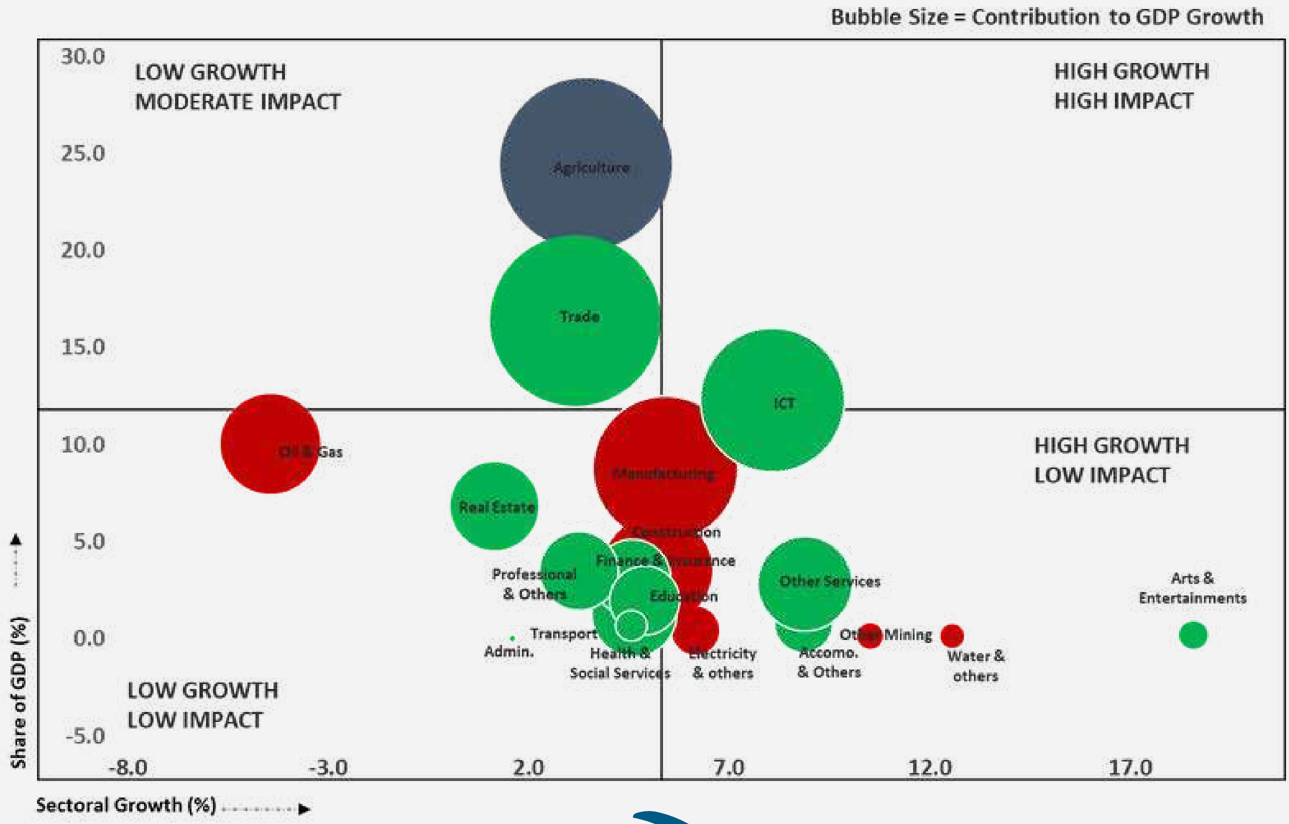
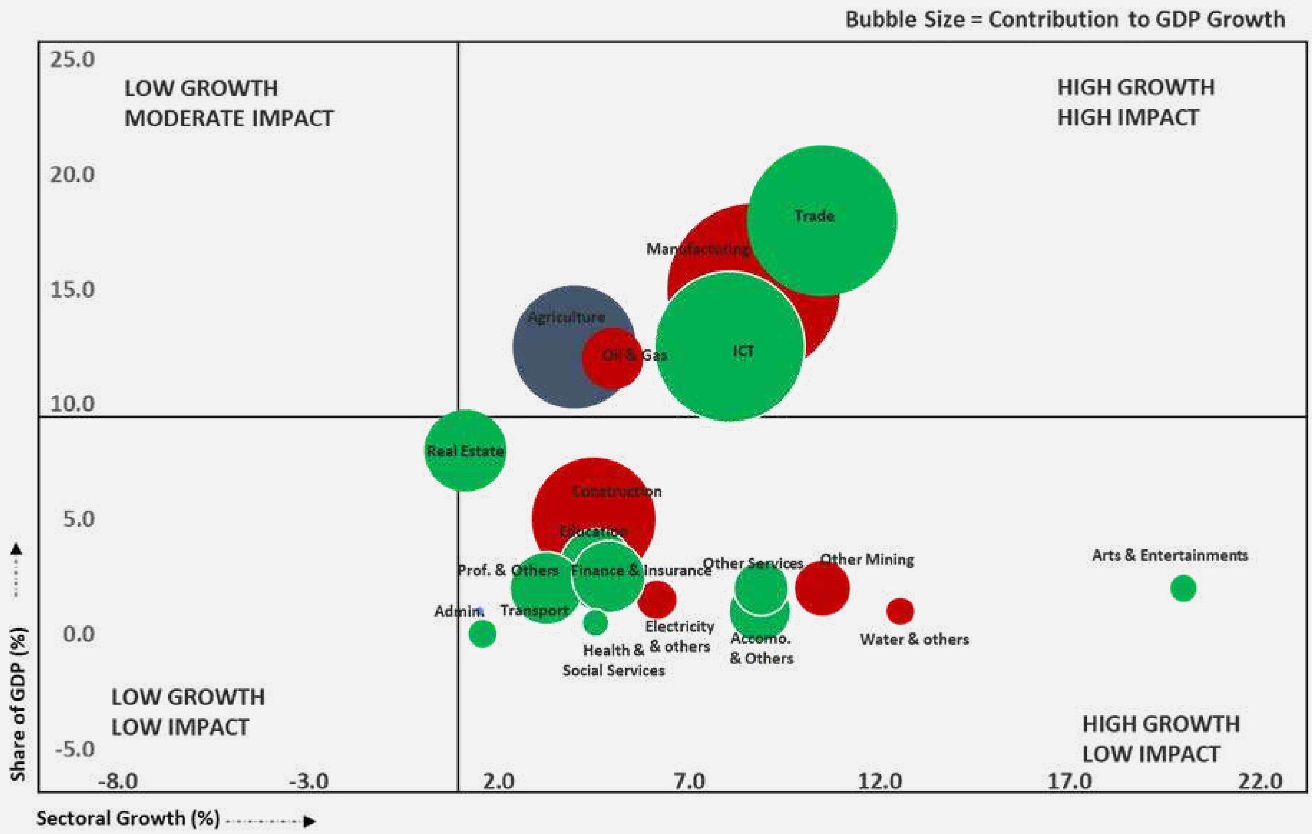


Figure 11B: Nigerian Economy & New Growth Drivers (2024-2025)



C. Exchange Rate Stability & Appropriate Price

Nigeria grapples with substantial challenges in foreign exchange management stemming from its import-dependent nature, exerting pressure on external reserves and exchange rates. Addressing the nation's exchange rate challenges and establishing appropriate pricing mechanisms within the Stabilisation Phase become critical imperatives. This is pivotal for enhancing productivity in the Non-oil sector, reducing imports, leveraging domestic resources, boosting exports, and improving the trade balance.

Debates abound on the optimal exchange rate. In the case of Nigeria, some development agencies, such as the IMF, are advocating for exchange rate alignment and flexibility. Nevertheless, a stable exchange rate system can fortify productivity and competitiveness, attract foreign investments, and stabilise the country's FX flows, which have significantly declined recently. For example, an ensuing economic benefit from a stable exchange rate system will be an improved net trade position due to the consolidated export earnings from both Oil and Non-oil sector activities. This would also help to motivate more export-oriented productive activities in the country.

In addition, an appropriating pricing of foreign exchange will result in a favourable current account balance (fueled by adequate inflows of foreign investments). This would significantly improve the country's net flows of FX through the economy – which crashed from as high as US$103 billion in 2013 to US$14 billion in 2017 and marginally improved to US$28.93 billion in 2022.

Some economic outcomes of achieving a stable and appropriate pricing of exchange rate in Nigeria are highlighted below.

Key Economic Outcomes of FX Stability and Appropriate Pricing

High private investments	When exchange rates are stable, everyone is better off. Price stability supports economic growth and employment. It allows people to make more reliable plans for borrowing, saving, and expanding businesses.
Support price stability	Decreased volatility of the exchange rate helps to support stability in inflation, which mainly affects low-income households because they have fewer resources to protect themselves. In the situation of price stability, it helps to maintain social cohesion and stability. History has shown that episodes of high inflation tend to be associated with social unrest.
Stronger reserves and capital inflows	Increased capital inflows will fortify the nation's external reserves, establishing a robust defence against external shocks. This can only happen with the stability of the exchange rate. Capital inflows, comprising foreign investment, loans and remittances, elevate the reserve levels, bolstering Nigeria's financial stability and economic resilience.

D. Strong Fiscal Position

The current macroeconomic instability in Nigeria can be attributed to the weakened fiscal capacity of the government, primarily resulting from the deterioration of its three key fiscal policy pillars: revenue, debt profile, and debt servicing capacity. This decline severely hampers the effectiveness of the fiscal environment and triggers a cascade effect on core macroeconomic indicators such as inflation and exchange rates.

Currently, the Nigerian government is contending with a growing budget deficit, estimated at 85.4% of government revenue as of 2022 — surpassing the benchmark figure of 3.0% of GDP stipulated in the Fiscal Responsibility Act (FRA) 2007, owing to historical underperformance in revenue. The reliance on foreign debt to finance the budget deficit, exacerbated by the private sector crowd-out effects of domestic borrowing, has contributed to the escalation of the general price level and the depreciation of the exchange rate.

A strong fiscal position connotes modest fiscal deficits, sustainable public debt levels and current account balance.

It is an outcome of effective policy management by the government. Effective fiscal policy management entails building a transparent and accountable system for collecting revenue, spending public funds, and managing public debt. Achieving these will help stabilise the macroeconomic environment and position the country for sustainable long-term economic growth.

Additionally, the government will be able to pursue countercyclical policies during economic downturns, stimulating growth through increased public spending and tax cuts. Low sovereign risks, resulting from the robust fiscal buffer, will instil confidence in investors, leading to lower interest rates and reduced borrowing costs for both the public and private sectors. Overall, a sound fiscal stance will foster long-term economic stability by minimising the risk of fiscal crises and providing room for strategic investments in infrastructure and human capital.

Highlighted below are indicators and performance thresholds on how to achieve effective fiscal policy management in Nigeria.

Key Economic Outcomes of a Strong Fiscal Position

Robust revenue framework	In addition to nominal enhancements in revenue, it is imperative for the country's revenue-to-GDP ratio to reach a minimum threshold of 15 percent to substantiate the processes of economic growth and stabilisation.
Sustainable level of public debt	The country must significantly decrease its current public debt service-to-revenue ratio, aiming for a reduction to less than 22 percent from the current high of 80.2 percent as of 2022. This reduction is crucial to create fiscal space, enabling the government to reallocate funds toward economic development and stability initiatives.
Low fiscal deficit	A moderate fiscal deficit can be a useful tool for financing essential investments and stimulating economic activity. Hence, the optimal level of fiscal deficit that supports economic growth and stability in Nigeria requires a careful balance. A fiscal deficit of less than 3 percent as stipulated in the FRA 2007 is considered appropriate for the economy.

E. Fair Market Competition

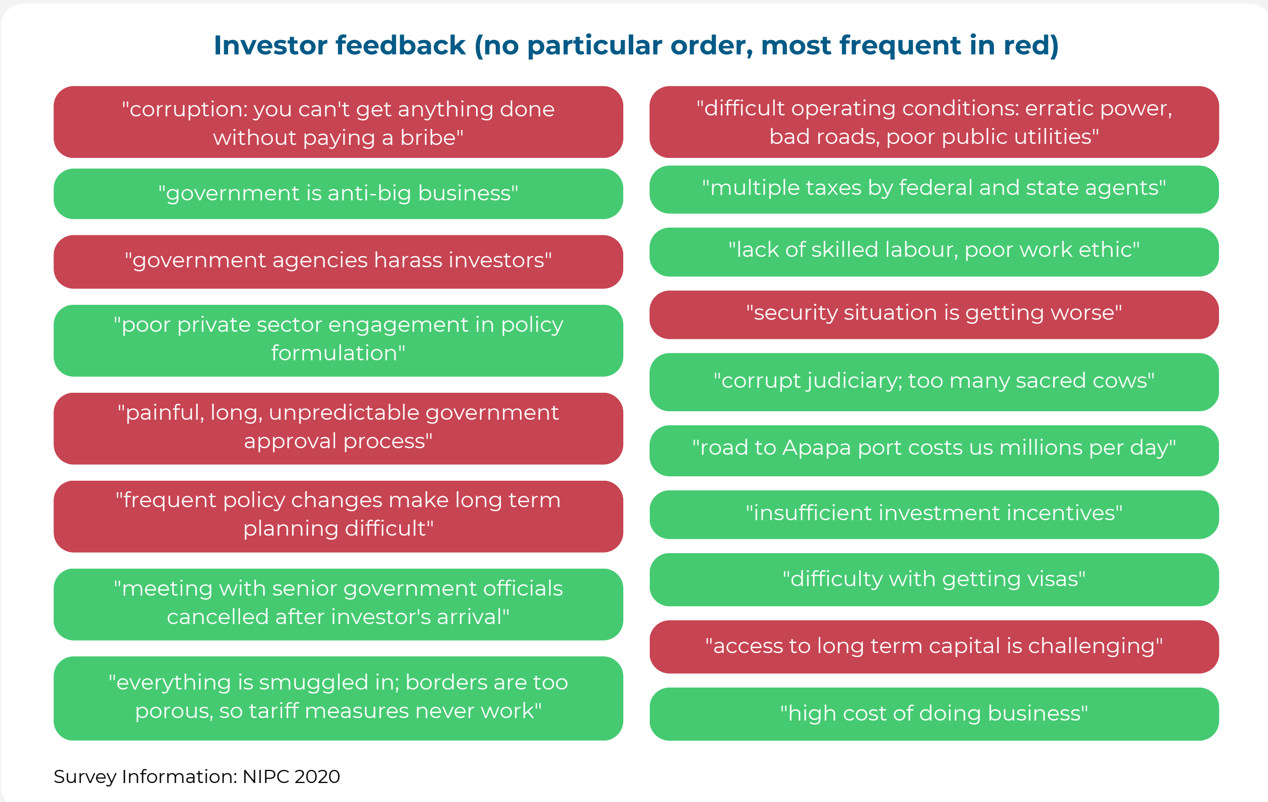
To cultivate a robust economic landscape, fair market competition emerges as a potent catalyst for growth and stability. Fair competition is the bedrock of a thriving economy, nurturing innovation and fostering equitable growth. This is because guaranteeing fair business practices in an economy is pivotal to mobilising the necessary private resources vital for Nigeria's pursuit of economic transformation and inclusion.

Nigeria is at a critical juncture in its economic history and growth trajectory. With a burgeoning population and abundant natural resources, the country possesses immense potential for development. Yet, to fully unlock its economic and social capabilities, it is imperative to cultivate an environment that incentivises investments in crucial sectors through fair market competition.

A recent survey of investors identified key issues impeding fair market operation/competition in Nigeria (see Figure 12). Principal factors contributing to this stunted investment growth include harsh business environment, policy inconsistency and regulatory bottlenecks. The cultivation of fair market competition in Nigeria holds a dual importance: it serves as a magnet for attracting investments and catalyses sustainable economic growth. Fair market competition becomes paramount because of the urgent need for domestic and foreign investments to bolster stability.

When engaged in healthy competition, industries can harness this dynamism to expand their capabilities, augment productivity, and propel economic advancement. Moreover, fair competition fosters an environment conducive for entrepreneurship and the evolution of small businesses. A clear example is the performance of Nigeria's ICT industry and the rapid growth of the country's digital and startup economy.

Figure 12: Challenges to Doing Business in Nigeria



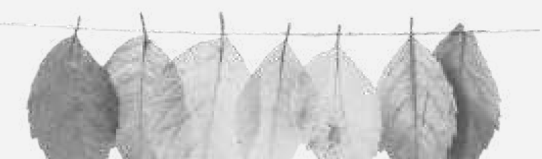
Policy Recommendations

The policy recommendations will be anchored on achieving a favourable level of focus. Hence, the suggested action plan will be structured across three focal policy points or directions. These policy directions will address the core focus of the Stabilisation Phase of Nigeria's economic growth and recovery path.

Focus/Policy Direction	Economic Goals/Measure of Success	Monetary Stability	Effective Fiscal Management	Regulatory Environment Reforms
Moderate inflation rate	Domestic financial stability			
	External sector stability			
	Output growth stability			
New sectors as economic growth drivers	High economic growth			
	Massive job creation			
	Broad sectoral growth			
Exchange rate stability & appropriate price	High private investments			
	Support price stability			
	Stronger reserves and capital inflows			
Strong fiscal position	Robust revenue framework			
	Sustainable level of public debt			
	Low fiscal deficit			
Fair market competition	Improvement in ease of doing business			

Top priority

Low priority



Policy Recommendations

1. Monetary Stability

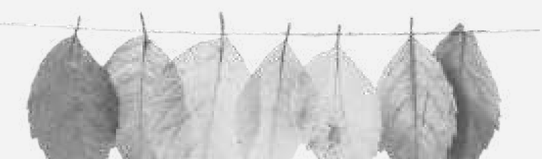
Monetary stability is a subjective approach as there are varying degrees to which the government seeks to achieve it. In the early recovery stage of the Stabilisation Phase, this approach concentrates on stabilising the local currency, bringing inflation and foreign exchange rates to levels consistent with sustainable growth, and promoting predictability and sound management in the Nigerian banking and financial system.

- **Build public confidence by stabilising the domestic currency.**
  Implementing measures to curb inflation, diversify the economy, bolster foreign reserves, and encourage local production can enhance the currency's stability. Therefore, the Central Bank of Nigeria (CBN) must prioritise accountability, engage with stakeholders, and foster trust. This can be done through consistent, clear messaging about currency strategies and economic reforms, which are pivotal, especially during the Stabilisation Phase.

- **Stabilise the exchange rate through a functional and transparent foreign exchange market.**
  This entails enhancing market liquidity through regular auctions, reducing administrative restrictions, and ensuring efficient allocation of FX reserves. Adopting a managed float system, regulating speculative activities, and encouraging foreign investments would bolster market confidence. Besides, access to FX needs to be realigned to facilitate international trade and transactions - as such, local access needs to be to the limit of the Naira equivalent. Reinforcing monetary policies for inflation control and export diversification would promote currency stability.

- **Set realistic targets for inflation rates.**
  Developing a robust framework that accommodates the country's economic landscape and considers economic indicators, market conditions, and policy adjustments while aiming for sustainable growth will help the CBN set realistic and achievable inflation rate targets. Utilising historical data analysis, collaborating with financial experts, and conducting thorough economic assessments can aid in establishing attainable inflation goals.

- **Build the institutional capacity of an independent and credible monetary authority.**
  There is a need to enhance the institutional capacity of its Central Bank by fostering autonomy, ensuring transparent policies, and promoting accountability. Establishing clear mandates, depoliticising decisions, and strengthening regulatory frameworks further fortify credibility. Also, continuous internal assessment, adopting best practices, and fostering collaboration with global financial institutions can empower the CBN as a formidable, independent, and trustworthy monetary authority, crucial for fostering economic stability and growth.



Policy Recommendations

2. Effective Fiscal Management

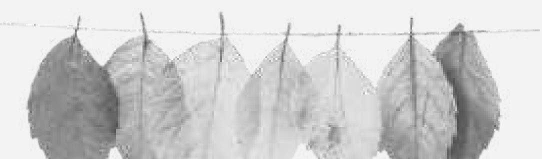
Effective fiscal management demands a transparent and accountable system for revenue collection, public spending, and domestic debt management. During this phase, the government is expected to leverage the budget to influence the economy through revenue collection and allocating goods and services payments. Establishing this condition early on is crucial for economic recovery and stabilisation.

Prioritise effectiveness and transparency in public financial management.
This action involves implementing stringent oversight mechanisms, digitising financial records, and ensuring public access to comprehensive budgetary information. Vital steps include regular audits, independent assessments, and transparent reporting structures to combat corruption and enhance accountability.

Simplify the tax systems and policies.
Collaboration with stakeholders to refine and consolidate regulations, ensuring fairness and accessibility, constitutes simplification of the tax system. Streamlining tax categories, enhancing tax education, fostering transparency in tax collection, establishing more precise guidelines, reducing bureaucratic hurdles, and digitising processes for easier compliance and revenue collection are essential.

Reduce tax rates on earned income.
A favourable tax environment attracts foreign investment, promotes entrepreneurship, and supports job creation. This, coupled with efficient tax collection, anti-evasion measures, and transparent fiscal policies, ensures sustainable government revenue. Emphasising the benefits of lower tax burdens on individuals and businesses garners public support, fostering economic stability and prosperity, and maintaining essential public services and infrastructure.

Reflect national interests in budget and public spending.
The government must prioritise sectors vital for economic growth, such as healthcare, education, and infrastructure, based on citizen needs and development goals. Allocating funds to address societal needs, encouraging equitable development, and fostering long-term sustainability enables the effective reflection of national interests in budgeting and public expenditure at both national and sub-national levels.



Policy Recommendations

3. Regulatory Environment Reforms

Establishing a legal, institutional, and regulatory framework is imperative to address stabilisation challenges, particularly in ensuring property rights. Policies to enhance or reform the regulatory environment must be simple, transparent, and easily enforceable, covering laws related to commerce, property rights, institutional oversight, and fiscal operations. These initiatives and broader economic recovery programs in monetary stability and fiscal management lay the groundwork for increased investment and growth in this phase.

Simplify all regulatory requirements and operations.
This involves streamlining processes through clear guidelines, reducing redundant approvals, and ensuring cross-agency coordination. Regular reviews and stakeholder consultations identify bottlenecks for continual improvement, fostering a business-friendly environment that attracts investments and promotes economic growth.

Promote predictability, open markets, and fair competition.
Implementing transparent policies, ensuring consistent enforcement of regulations, and enhancing businesses' access to information are critical elements in creating open markets and fostering fair competition. In addition to simplifying bureaucratic procedures, investing in infrastructure encourages market openness. Public-private partnerships, safeguarding intellectual property rights, and promoting entrepreneurship through targeted incentives contribute to fair competition.

Prioritise laws to combat organised crime and illicit economic activity.
Enacting comprehensive legislation that strengthens law enforcement capabilities, promotes cross-agency collaboration, and imposes stringent penalties on anti-competition activities is crucial. Judicial reforms to expedite trials and ensure fair adjudication should be prioritised. Educating the public on the consequences of such activities and fostering community engagement in reporting suspicious behaviour can complement these legal measures, contributing to a safer and more secure society.

Engage the private sector in advocating for policies and regulatory reform.
Initiating forums facilitating communication between government and businesses and emphasizing policy dialogues for shared goals is crucial. Collaborative task forces, comprising industry leaders and policymakers, can be established to promote transparent communication and feedback mechanisms. Encouraging public-private partnerships through incentives for active involvement in policy formulation and reform can drive mutual benefits. This synergy will nurture trust, creating a conducive landscape for sustainable policy development and regulatory reforms in Nigeria.

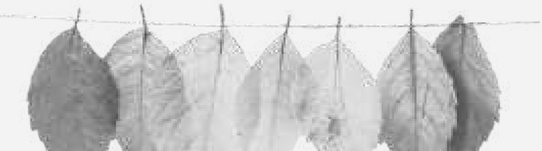
Consolidation Phase

After achieving macroeconomic stability through the Stabilisation Phase, marked by low inflation, stability in the local currency and exchange rates, and maintaining a sustainable level of public debt, among other factors, the government must fortify the accomplishments made and rectify any shortcomings as it enters the Consolidation Phase. These efforts will consolidate the progress achieved in the Stabilisation Phase and build the foundation for a smooth transition towards the Acceleration Phase.

According to the proposed economic transformation roadmap, the Consolidation Phase represents a medium-to-long-term trajectory wherein advocates of reforms can slow down their pace but cannot reverse the direction of economic reforms. This stage entails a deceleration rather than a halt or reversal of reforms, allowing the already initiated reform programs to influence multiple sectors of the economy gradually. During this phase, reforms become ingrained, leading to new support programs with specific sectoral economic targets.

The Consolidation Phase commences with an evaluation, inspection, and thorough review of the implementation and impact of stabilisation reforms, aimed at determining the extent to which reform objectives have been attained. Furthermore, any resistance to change resulting from the initial phase of reform will be lessened, if not entirely resolved, as the government adapts reforms and policy decisions to suit the prevailing circumstances in the country.

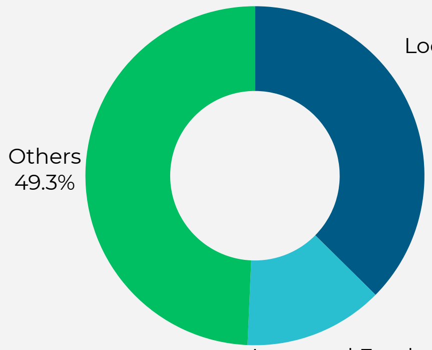
After that, the Consolidation Phase will build on these activities by focusing on four (4) core areas, as highlighted below.



A. Improving Agricultural sector productivity

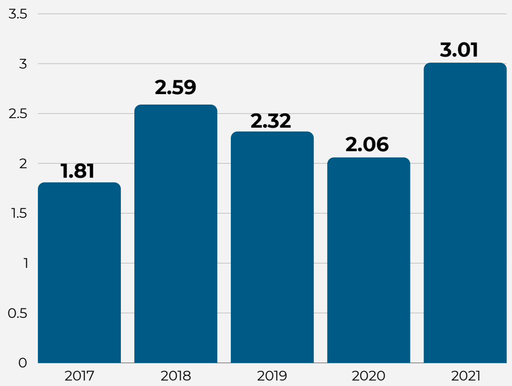
Despite its vast arable land, Nigeria faces a food shortage crisis. The current challenge stems from insufficient local content and low domestic productivity, resulting in a heavy reliance on imported commodities. Critical sectors such as the Agro-processing industry, vital for high growth and employment, experience suboptimal productivity due to challenges in accessing funds necessary for scaling up local production of import-substitute goods. This leads to significant financing gaps along their respective value chains. Therefore, a resource-based strategy is imperative to maximise local resource utilisation and foster local value chain development.

Figure 13A: Contribution of Agriculture-Related Activities to Inflation in Nigeria



Data: NBS, Chart: NESG Research

Figure 13B: Foreign Exchange Utilisation for Food Imports & Agricultural Sectors (US$ Billion)

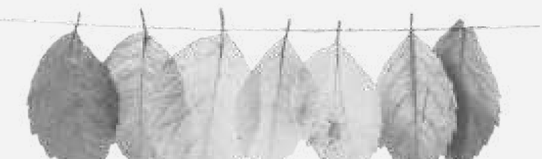


Data: CBN, Chart: NESG Research

Restructuring Nigeria's agricultural sector within the larger agri-food system necessitates addressing systemic issues by embracing a comprehensive value-chain approach that intricately connects production with post-harvest activities. During the Consolidation Phase, the primary objective is reinforcing achieved price stability, as food imports significantly contribute to inflationary pressures. Enhancing agricultural productivity becomes imperative, serving as a food security target and a cornerstone of macroeconomic stability.

In sectoral terms, Nigeria grapples with a financing gap of US$182 billion for Agricultural Micro, Small, and Medium-sized Enterprises (MSMEs), with the MSMEs' financing gap comprising approximately 80 percent of the sector's total. Out of the US$8 billion credit supply to Agriculture, around 30 percent is self-funded, while banking institutions (commercial banks, microfinance banks, and DFIs) and Government interventions contribute 8 percent and 20 percent, respectively (Agri-Logic, 2021). Addressing these funding needs through improved access to credit, savings, insurance, and payment solutions will attract investment, enhance yields and productivity, ensure food security, promote prosperity, and reduce poverty.

Despite various policy interventions, the Agricultural sector still needs to be developed, with a predominant focus on production rather than value addition across the production segments. Nigeria's agricultural value chain is characterised by approximately 80 percent of smallholders and a few commercial processors facing challenges like inadequate inputs, obsolete technology, and poor financing (PwC Nigeria, 2017). Therefore, articulating a national policy on value chain development and deepening reforms is imperative to further improve the business and regulatory



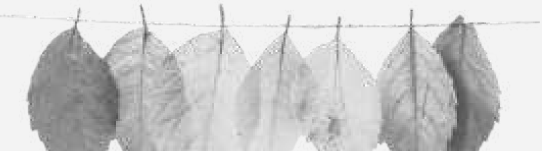
environment, focus on comparative and competitive advantages, and promote public and private Research and Development (R&D) investment (Ogunleye, 2014).

As a reference case, in Brazil, the improvement in the agricultural value chain resulted in agribusiness generating 16 million new jobs in 2012, accounting for 46.3 percent of exports in 2016. Also, the country has become a global producer of many agro-processed commodities - orange juice, sugar, and ethanol. The Brazilian agricultural value chain developed because of the availability of improved seeds, improvement in soil fertility, increased adaptation to technology, and the support of domestic and international research institutions (PwC Nigeria, 2017).

Exploring Nigeria's potential in agro-processing and light manufacturing highlights immense benefits in the face of the African Continental Free Trade Area (AfCFTA) agreement.

Since the country signed the trade pact in 2019, Nigeria's intra-African trade has remained very low. Contrary to expectations, the share of the African continent in Nigeria's total trade (sum of exports and imports) has consistently declined from 11 percent in 2020 to 7.5 percent and 6.5 percent in 2021 and 2022, respectively. However, the non-African market share of Nigeria's external trade rose steadily from 89 percent in 2020 to 92.5 percent and 93.5 percent in 2021 and 2022, respectively. This suggests that the country's intra-African trade potential is yet to be harnessed.

At the end of the Consolidation Phase, critical success factors would include a reduction in import dependence, expansion of trade sophistication and the trade to GDP, reduction in post-harvest losses to N1.5 trillion in 3 years, and an increase in post-harvest storage capacity to 50 percent.



B. Transformation of production sectors for job creation and global competitiveness

In recent years, vital job-elastic sectors in Nigeria, such as Agriculture, Manufacturing, Construction, Trade, and Education, have faced constraints and witnessed declining productivity. Although most of these sectors contribute 5 percent and above to GDP, their growth rates fall below 2 percent. The government's consolidation of reform processes, including subsidy removal and Naira devaluation, is crucial to ensuring sustainable and higher productivity in these vital sectors.

However, the link between employment and poverty in Nigeria remains weak, hindered by structural challenges like infrastructure deficits, rising inflation, and governance issues. According to the NESG (2020), the elasticity of poverty concerning job creation in Nigeria is estimated at -0.6, indicating that, on average, only six individuals are lifted out of poverty for every ten jobs created. Implementing robust reforms to enhance the business environment could improve this elasticity to 4.3, suggesting that forty-three individuals could be lifted out of poverty for every ten jobs created. This underscores the transformative potential of strategic reforms in addressing poverty through job creation.

Due to the large size of Nigeria's informal sector, the country remains exposed to vulnerable working conditions, thereby exacerbating socio-economic deprivation.

This suggests that job creation is just a condition for poverty reduction, but the quality of jobs matters for substantial progress to be recorded. According to the International Labour Organisation (ILO), "Nothing is more fundamental to poverty reduction than employment". It further argues for more "decent employment", defined as "work that offers people a good income, security, flexibility, protection and a voice on the job".

Human capital development is critical to enhancing the skills and capacity of Nigerian youths to contribute significantly to economic growth and sustainable development. Skills development is at the centre of job creation and poverty reduction and a crucial way of ensuring the youths are productively engaged. As a matter of urgency, the government must collaborate with private companies to design a dual and effective Technical and Vocational Education and Training (TVET) system based on the country's aspirations and economic opportunities.

A remarkable pointer to success would be an enhanced human capital development outcome, the creation of new and decent jobs and a significant reduction in the poverty rate.

C. Reinvigoration of Services sector

Despite challenging economic conditions, the Nigerian Services sector has sustained its productivity and contribution to GDP. The sector accounts for 56 percent of GDP and a large share of employment by hosting most of the job-elastic sectors; productivity in the sector is an enabler of other sectors. With a growth of 4.25 percent driven by ICT, Financial, and Trade sub-sectors, the sector has remained attractive to foreign investment. However, the government's inability to address structural gaps has inhibited the sector’s capacity to expand and create jobs.

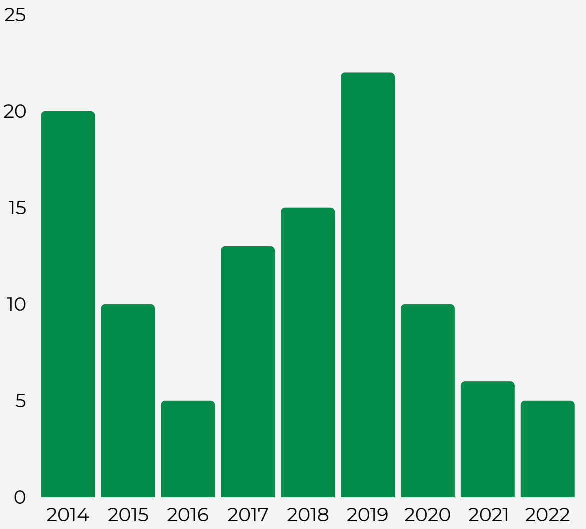
Technological innovation and cross-border mobility of persons have supported international service trade. Since service is less dependent on physical infrastructure, Nigeria could leverage the Services sector to diversify and boost exports, especially on the AfCFTA platform. However, the country needs to enhance the skills and capacity of the Nigerian labour force to contribute significantly to service exports, including construction, recreational, and professional services.

D. Attracting Private sector investment to specific sectors

The private sector must play a pivotal role in realising Nigeria's development agenda, especially as public spending falls short of financing the country's significant development needs. The United Nations estimates Nigeria's pre-pandemic Sustainable Development Goals (SDGs) funding requirements at US$10 billion annually. However, the COVID-19 outbreak has exacerbated development challenges, widening the SDG funding gap. The International Monetary Fund (IMF) emphasises that Nigeria needs additional spending of 18 percent of GDP by 2030 to achieve targets in crucial sectors like education, health, electricity, roads, water, and sanitation.

Given the persistent fiscal challenges in Nigeria, there is an enormous need for long-term private capital to support the government's ambitious development initiatives. Foreign capital inflows, however, have remained subdued below US$10 billion since 2019, facing challenges such as capital reversals and concentration in money market instruments and loans. Potential long-term private sector financing sources encompass domestic and international capital markets, Development Financial Institutions (DFIs), institutional investors (pension funds), venture capitalists, angel investors, impact investors, foreign investors, and remittance inflows. Expanding and diversifying these funding sources can significantly contribute to Nigeria's sustainable development goals.

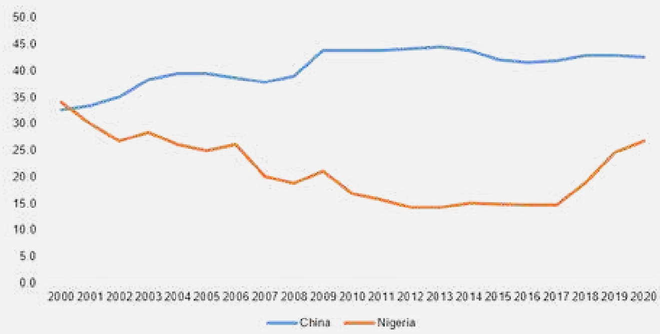
Figure 14: Foreign Capital Inflows in Nigeria (US$ 'Billion)



Data: NBS, Chart: NESG Research

Nigeria must attain a private investment-to-GDP ratio of over 40 percent to fund developmental deficits. In 2000, the country's real investment as a percentage of GDP (34 percent) was a little above China's level (32.6 percent), but Nigeria's investment has been falling thereafter. Whilst the Chinese private investment-to-GDP ratio jumped to 42.5 percent in 2020, Nigeria's investment ratio receded to 26.7 percent (see Figure 14). China, a significant reference for many developing countries, implemented the Open Door Policy, which led to a substantial inflow of investments into several sectors of the economy. Specifically, Foreign Direct Investment (FDI) inflows rose from US$916 million in 1983 to US$3.5 billion in 1990. In 2002, China became the world's largest recipient of FDI, receiving nearly US$53 billion.

Figure 15: Real Gross Capital Formation (percent of GDP)



Data: World Bank WDI, Chart: NESG Research

The realisation of the role of the private sector in the country's development process birthed the Medium-Term Development Plan (2021-2025). The investment requirement of the plan totalled N348 trillion, of which the private sector would contribute N298.3 trillion (85.7 percent) while the government is expected to contribute 14.3 percent.

In addition, the Plan could fail to achieve its targets of generating 21 million full-time jobs and lifting 35 million Nigerians out of poverty by 2025 if the structural bottlenecks hindering the inflow of investments are not addressed. These bottlenecks include an unfavourable business environment, infrastructural deficit, insufficient institutional support such as an enabling legal framework that ensures the enforcement of contracts, harsh and uncertain regulatory environment, coordination issues, human capital needs, foreign exchange scarcity and difficulty in profit repatriation, and insecurity, among others.

In addition, attracting private investments should target specific sectors to stimulate economic growth and job creation. As much as Nigeria needs private capital in every sector of the economy, the government must prioritise sectors based on their competitive advantage.

Based on the share of employment, strong output growth potentials, backwards and forward linkages with other sectors and a strong linkage with poverty reduction, the NESG identified six (6) crucial sectors - Manufacturing, Construction, Trade, Education, Health and Professional Services with ICT and Renewable energy sectors serving as enablers (NESG, 2020). However, the sector's contribution to overall GDP growth has been low, limiting the sector's potential for inclusive growth.

At the end of the Consolidation Phase, economic growth will be Private sector-led with a visible improvement in the share of real sector foreign investment inflow to 60 percent of investment flows. The actual domestic investment to GDP ratio should increase to 40 percent.

Policy Recommendations

A. To boost domestic productivity and optimise local content.

By implementing a holistic approach that addresses infrastructure, education, policies, and collaboration between the public and private sectors, Nigeria will consolidate economic gains during its Stabilisation Phase and foster sustainable economic growth through increased domestic productivity, especially in the agriculture and industrial sectors.

Invest in production-supporting infrastructure.
This initiative will emphasise projects that align with Nigeria's developmental objectives, focusing on their long-term impact on economic growth, job creation, and overall competitiveness. The focus should be on infrastructure improvements in transportation networks, power supply, and communication systems. Thus reducing logistical hurdles and costs for businesses and enhancing productivity.

Support Small and Medium Enterprises (SMEs) to grow.
In addition to ensuring the availability of infrastructure, the government must extend support, in the form of funding and other resources, to Small and Medium Enterprises (SMEs), which often are the cornerstone of local production and economy. This support should encompass access to finance, training programs, and technology adoption aimed at enhancing productivity and amplifying the output of these enterprises.

Implement local content policies to support the economy.
Implement and enforce policies that encourage the use of locally produced goods and services in various sectors, stimulating domestic production and reducing import dependency. These supportive policies should include tax breaks and favourable regulations to encourage local production and investment. Also, collaboration between the government and private sector entities creates an enabling environment for businesses to thrive, thereby increasing productivity.

Improve international market access for Nigerian goods.
The government must address tariff and non-tariff issues affecting the effective positioning of Nigerian products in global markets. Improving access to international markets for locally produced goods and services through trade agreements and market development initiatives would strengthen Nigeria’s resilience against external shocks and foster economic growth and prosperity.

Policy Recommendations

B. Incentivise the inflow of private sector investments.

These efforts centre on implementing measures, policies, and regulations that cultivate an environment conducive to private-sector investment. This drive aims to fuel economic growth, spur job creation, and facilitate overall development in Nigeria. Regularly evaluating and adapting policies will be crucial to meeting evolving needs and attracting continuous and lasting private investments.

Implement transparent and consistent policies, especially those relating to investments and economic activities.
It is imperative to establish clear, stable, and predictable policies and regulations to boost investment and support economic growth. The investor-friendly legal framework will also help to streamline bureaucratic procedures, ensure contract enforcement, and strengthen intellectual property rights protection. This builds trust and encourages long-term commitments from investors.

Introduce dedicated policies on market access and trade.
Aside from improving existing trade and investment policy frameworks in Nigeria, it is critical to reinvigorate market access for businesses by strengthening trade policies, negotiating favourable trade agreements with other notable markets, and promoting exports for SMEs. There can also be some sector-specific support systems to identify critical sectors for growth and provide targeted support, such as technology transfer programs, industry-specific incentives, and regulatory approval.

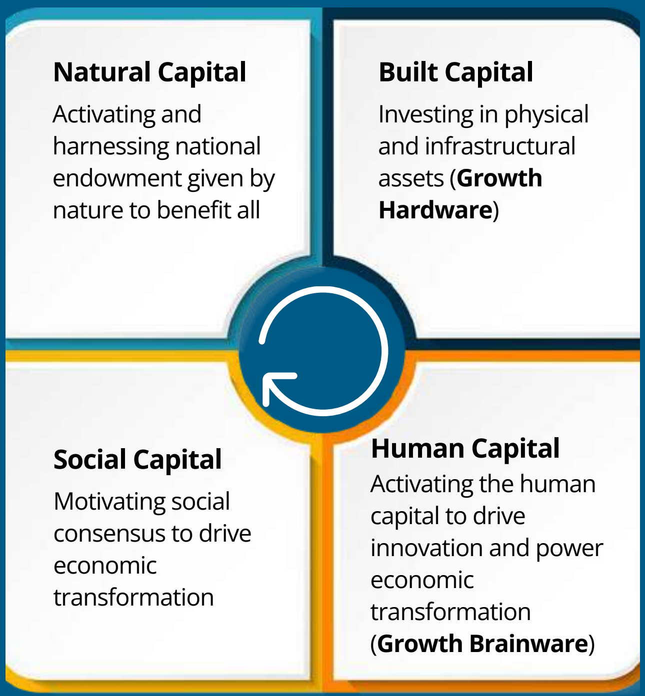
Acceleration Phase

Economic transformation is underpinned by the profound objectives of fostering long-term sustained economic growth, catalysing job creation, and alleviating poverty. According to Peruzzi and Terzi (2021), achieving these objectives has historically been preceded by major improvements in orthodox policies and standard growth determinants, encompassing various economic liberalisation policies, institutional development, and macroeconomic stabilisation. The preceding subsections have addressed these growth determinants (Stabilisation and Consolidation Phases). However, improvement in the growth determinants is necessary; more is needed to accelerate growth and drive economic transformation. A much more deliberate and tailor-made approach, reflecting national opportunities and endowments and the government's developmental goals, needs to be adopted.

Within this Phase, the government will lay the groundwork for the envisioned long-term economic transformation. The key lesson from the experience of the Asian Tigers, alongside the Chinese Economic Miracle, is that, beyond stabilising and reversing the weak growth trajectory of the economy, achieving rapid industrialisation, focusing on exports, improving the quality of the workforce, and high savings rates, is a more viable pathway to economic transformation. Nigeria must take a cue from these countries to tread the path of rapid industrialisation and target productive capacity at exports, having achieved domestic sufficiency.

Drivers of the Acceleration Phase

According to Zeleny (2005), motivating economic transformation involves activating and harnessing the country's transformational capital. This includes Natural→Built→Human→Social capital, in that order. Nigeria has great potential to exploit each form of transformational capital to transform the economy. Nevertheless, the level at which Nigeria takes advantage of these forms of capital is still nascent and crude in some cases. In the Acceleration Phase, the government's efforts towards economic transformation must be geared towards activating these forms of capital.



By their nature, policies targeted at activating these forms of capital rest more with the fiscal policy. Nevertheless, monetary policy's momentary interventions could establish a foundation for long-term outcomes. Meanwhile, the government cannot provide all the investment needed to optimise these forms of capital; it will only implement policies to provide an enabling environment to attract private investors across identified forms of capital.

A. Natural Capital

Natural capital emanates from natural resource endowment in the form of diverse mineral resources. Natural capital forms the basis for all productive activities, as industrial, manufacturing, and service activities work to transform natural endowments into finished products. In essence, the other forms of capital are geared towards optimising natural capital.

Nigeria is endowed with natural capital that is either redundant, underutilised or being siphoned by non-state actors. In terms of mineral resources, the exploration of natural resources has focused on Oil and Gas over the past four decades. In 2022, the mining sector sparsely accounted for 6 percent of the GDP. Meanwhile, the Oil and Gas sector accounted for 97.6 percent of Nigeria's mining activities, suggesting a near comatose situation in exploring other mineral resources.

Aside from the dominance of the mining sector, the Oil and Gas sector has been in recession for the 14th consecutive quarter, suppressing the performance of the industrial sector. Yet, it still accounted for 91.3 percent of exports (see Table 2).

Relative to comparable peers, the share of Oil and Gas activity in Nigeria's mining sector is abysmally high. Despite not often being categorised as oil-producing countries, China, Brazil, and Mexico have much larger Oil sectors than Nigeria, and other mineral resources continue to play substantial roles in output and exports.

Table 2: Industrial sector distribution by peers in 2022

		Industrial (% of GDP)	Manuf. (% of GDP)	Mining (% of GDP)	Oil & Gas (% of Mining)	Other Mining (% of Mining)	Manuf. (% of Exports)	Oil & Gas (% of Exports)
Nigeria		19.02	8.92	5.90	96.40	3.60	2.3	91.3
Regional Peer	S.Africa	24.40	11.79	7.30	5.48	94.52	37	14
	Egypt	32.70	16.00	5.10	58.82	41.18	42	37
Structural Peer	Brazil	20.70	11.12	7.90	32.91	67.09	25	17
	UAE	47.50	10.00	17.60	89.20	10.80	18	51
	Mexico	32.13	18.79	3.60	58.33	41.67	77	7
Aspirational Peer	China	39.90	27.70	1.70	17.65	82.35	93	2

N:B Aspirational peers (countries that Nigeria intends to be like in terms of size of GDP etc); Structural peers (countries that exhibit similar economic structure and achieved economic transformation); Regional Peers (countries in Africa with similar economic structure)

Source: NBS, Statista, WDI

Natural capital plays two major roles on the path of economic transformation. First, it is an endowment that can be exploited to build wealth to invest in the country. In this regard, Nigeria has exploited crude oil. However, this has been sub-optimal, as Nigeria has not been able to develop other sectors by using the proceeds from crude oil sales. On the other hand, natural capital is the major source of inputs – ranging from land, workforce and mineral resources - for many secondary and tertiary sectors.

The government must facilitate the activation of Nigeria’s mineral endowments and other nature-given opportunities scattered across the country to create new economic opportunities and expand industrial and manufacturing activities.

B. Built Capital

Built capital arises from investment in physical assets and infrastructural facilities, including buildings, technologies, transportation systems, power generation, water systems, ports and some sector-specific infrastructure. A country's developmental "hardware" is installed to facilitate economic activities, drive productivity and propel economic transformation. Over the past five years (2017-2022), Nigeria has made gradual progress in infrastructure development across critical sectors, including Transportation, Power, ICT, and Water and Sanitation. Despite this, Nigeria still lags behind 23 other African nations, scoring 24.9 points out of 100 on the Africa Infrastructure Development Index in 2022 (see Table 3).

Nigeria's infrastructure stock continues to fall short of the requirement to drive economic transformation and inclusive development. According to the World Bank, Nigeria's infrastructure stock stands at 35 percent of GDP, lagging behind the World Bank's international benchmark of 70 percent. Also, Moody's estimates that Nigeria needs US$3 trillion over the next three decades to cover its infrastructural deficit, amounting to US$100 billion annually. This is a far cry from the current level of infrastructure spending, as the government is hardly investing over 10 - 15 percent of the investment requirement annually.

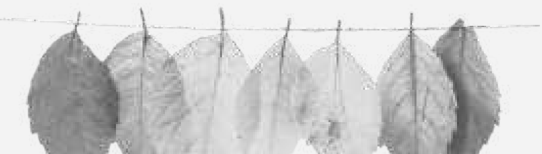
The implication is that Nigeria's state of infrastructure is inhibiting productivity and competitiveness and constraining the growth of businesses. It has pushed many craftsmen, artisans and MSMEs out of employment and business, demotivating uptake of Technical Vocational Education and Training (TVET) professions and entrepreneurship.

Drastic expansion of Nigeria's infrastructure stock is paramount to unleashing the economy's potential to drive economic transformation. The government must continually maintain, renew, refurbish and modernise the built capital to ensure sustained effectiveness and to continue supporting productivity.

Table 3: Nigeria's Performance on the Africa Infrastructure Index

	2015	2019	2020	2022
Nigeria	20.45	23.28	24.18	24.9
Egypt	85.62	87.23	88.39	89.91
South Africa	75.9	78.43	79.34	81.67
Ghana	25.44	29.51	30.13	31.81
Senegal	24.59	28.3	29.22	31.3
Rwanda	20.45	22.76	23.27	24.53
Cote d'Ivoire	18.85	20.97	21.7	22.66

Data Source: AfDB



C. Human Capital

Human capital arises from investment in the people. Human capital is the most important factor in transforming an economy. It constitutes the "Brainware" of the country that drives innovation. Human capital includes investment in education, skills and capacity development, health care, housing and nutrition. Nigeria's performance on the Human Development Index is lower among comparable peers or nations. According to the United Nations Development Programme, Nigeria's HCDI stood at 0.54 points, ranking 163rd out of 191 countries. This puts Nigeria at the bottom 30 of human development (see Table 4).

School enrolment rates in Nigeria drop drastically as children move up the education ladder. Between 2010 and 2018, the enrolment rates averaged 89.8 percent, 46.7 percent and 9.9 percent at primary, secondary and tertiary levels of education, respectively. The school drop-out rate stood at 33.7 percent, above the global average of 8.5 percent. Nigeria accounts for about 25 percent of the global out-of-school children motivated by the prevalence of internally displaced children. Besides, the uptake of Technical and Vocational Education and Training (TVET) has drastically reduced among the people.

The development of an economy is to the extent of the education and capacity of its workforce. One major characteristic of countries with low human development is low productivity, as the workforce cannot support high-end economic activities. According to the NBS, Nigeria's revised unemployment rate was 4.1 percent in Q1-2023. Interestingly, 92.6 percent of employed people work in the informal sector (primarily agriculture), while only 11.8 percent have wage employment. The lack of capacity is a major reason for this dysfunctional labour outcome, as most people become unavailable for high-end roles and end up in informal trade and agricultural activities.

Investment in human capacity development is a top priority for Nigeria to advance toward economic transformation. Human capacity development transcends education and skills; it covers healthcare, nutrition, social safety net, emergency response, and so on to keep an individual in the right state of mind from childhood to adulthood. Therefore, human capital investment starts from infancy to adulthood to harness citizens' potential optimally.

Table 4: Nigeria's Performance on the Human Development Index as of 2021

		Human Development Index (Value)	Life Expectancy at Birth (Years)	Expected Years of Schooling (Years)	Mean Years of Schooling (Years)	GNI Per Capita (2017 PPP $)	HDI Rank
Nigeria		0.54	52.68	10.13	7.18	4,790.28	163
Regional Peer	South Africa	0.71	62.34	13.64	11.37	12,948.37	102
	Egypt	0.73	70.22	13.79	9.57	11,731.69	97
	Kenya	0.58	61.43	10.70	6.65	4,473.57	150
Structural Peer	Brazil	0.75	72.75	15.60	8.13	14,369.89	86
	Indonesia	0.71	67.57	13.75	8.56	11,466.07	116
	Mexico	0.76	70.21	14.86	9.22	17,896.29	88
Aspirational Peer	Japan	0.93	84.78	15.22	13.37	42,274.29	19
	China	0.77	78.21	14.24	7.60	17,504.40	82
	Germany	0.94	80.63	17.01	14.09	54,534.22	7

Data Source: UNDP

D. Social Capital

Social capital is the motivation of social consensus to drive economic transformation. This involves developing the correct national, social and cultural values that support economic growth and development. It includes building strong institutions, national cohesion, political stability, moral and behavioural uprightness, commitment to the rule of law, equity and fairness, justice, trust, national pride and patriotism, self-worth and individual responsibility.

While other forms of capital are proximate and mechanical drivers of economic transformation, social capital is essential for adequately deploying other types of capital to drive economic change. The current situation in Nigeria, however, suggests a low level of social capital (see Table 5) with widespread corruption, rising insecurity and crime rate, weak institutions, depleting citizens' trust, disillusioned youths, moral decadency and economic sabotage.

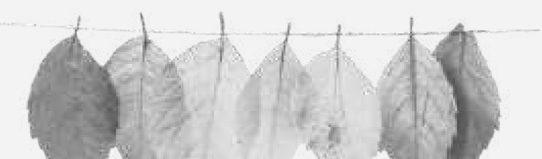
Comparatively, Nigeria underperformed most of its peers. Nigeria's near-bottom performance on the Corruption Perception Index, Fragile State Index, and Global Peace Index reflects the country's economic struggle despite numerous natural endowments. As many issues crystalise, economic, policy and investment decisions are being altered. Data from Table 5 suggests that as countries move in a favourable direction on the indicators of corruption, peace and national stability, the economic outcome also improves, as reflected by their performance on per capita income.

Motivating social capital requires a visionary alignment of the citizens' aspirations and strategic accumulation of national optimism and patriotism. The government must inspire the right social capital to position Nigeria for economic transformation.

Table 5: Social Capital Indices

		Corruption Perception Index 2022 (of 180)		Fragile State Index 2023 (of 179)		Global Peace Index 2023 (of 163)		GNI Per Capita (2017 PPP $)
		Score	Rank	Score	Rank	Score	Rank	
Nigeria		24	150	98	15	2.88	145	4,790.28
Regional Peer	South Africa	43	72	72	78	2.08	121	12,948.37
	Egypt	30	130	81.6	50	2.36	135	11,731.69
	Kenya	32	123	87.8	35	2.25	130	4,473.57
Structural Peer	Brazil	38	94	74.5	71	1.9	109	14,369.89
	Indonesia	34	110	65.6	98	1.76	86	11,466.07
	Mexico	31	126	69.8	85	2.66	140	17,896.29
Aspirational Peer	Japan	73	18	30.5	161	1.4	33	42,274.29
	China	45	65	65.1	101	1.9	107	17,504.40
	Germany	79	9	24.6	166	1.05	11	54,534.22

Data Source: Transparency International, Fund for Peace, UNESCO – Vision of Humanity, UNDP



Defining Success in the Acceleration Phase: Key Performance Indicators

The Acceleration Phase will strengthen the macroeconomic and business operating environment improvement as established in the Stabilisation and Consolidation Phases. Besides, the Acceleration Phase will facilitate specific mutations in the fundamental structure of the economy, delivering robust sectors and inter-sectoral value chain development and improving the country's performance across socioeconomic indicators.

Table 6 presents key performance indicators on outcomes of economic transformation for Nigeria. The path to economic transformation rests on the sustained high growth rate of the economy, both in nominal and real terms and should propel expansion in per capita income. This is achievable considering the historical experience of Nigeria's aspirational peers, such as China, Japan, and Germany, during the initial stage of their transformation. China maintained an average real GDP growth rate of 10.3 percent (from 1982 to 2011). Similarly, Japan and Germany maintained average growths of 10.5 percent (1956 to 1973) and 9.2 percent (1951 to 1960), respectively.

In addition, there will have to be fundamental changes in the economy's structure and composition of exports in favour of manufacturing and other industrial activities.

On the social front, the percentage of Nigerians working in the informal economy and agriculture sectors must be reduced, and labour productivity must be amplified. As proof of efficient economic transformation, Nigeria's poverty and inequality levels must begin to contract. Therefore, to mitigate previous experiences of immiserising growth, reforms must be orchestrated to deliver these outcomes.

Table 6: Key success factors across socioeconomic indicators

	Economic Outcomes	Current	Expected
GDP Size	Nominal US$GDP Growth (%)	5.2	25
	Real GDP Growth (%)	1.1	7.5 – 10
	Per Capita Income (US$)	< 2,000	> 10,000
Economic Structure	Agriculture (% of GDP)	25.6	< 10
	Industrial (% of GDP)	21.1	> 35
	Manufacturing (% of GDP)	9	>20
	Mining (% of GDP)	5.8	>15
	Oil and Gas (% of Mining)	97.6	< 65
	Other Mining (% of Mining)	2.4	> 35
	Services (% of GDP)	52.6	50
Export Structure	Agriculture (% of Exports)	3.4	> 5
	Manufacturing (% of Export)	2.3	35
	Mining (% of Export)	94.3	50
	Oil and Gas (% of Mining)	96.8	< 65
	Other Mining (% of Mining)	3.2	> 35
	Other Exports (% of GDP)	-	5
Employment	Informal employment (%)	92.6	30
	Labour Productivity (US$/hr)	9.2	> 40
	Labour Force (% in Agriculture)	34.9	< 10
Poverty & Inequality	Poverty (% of the population)	42.8	< 5
	Inequality Reduction (Index points)	35.1	< 20

Policy Recommendations

Natural Capital

Fiscal Policy

Embark on comprehensive and economy-wide market reforms.
A robust market system is crucial for efficient production and services across all sectors. These reforms will eliminate barriers hindering economic flow, ensure consistency in policies and regulations, protect property rights, ensure transparency in public services, remove legislative obstacles, and control non-state actors.

Facilitate product diversification and sophistication.
Nigeria, with its varied resources, should move beyond oil and explore minerals, agriculture, manufacturing, and knowledge-based industries. Alternatively, enhancing existing products through innovation and refining crude oil within the country can boost exports, including petroleum and agricultural goods.

Develop growth strategies for employment elastic sectors.
Sectors with high employment potential, outlined in the NESG 2020 Macroeconomic Outlook report, include Manufacturing, Construction, Trade, Education, Health, and Professional Services. These sectors, along with ICT and Renewable Energy, have significant job creation capacity, strong links to inclusive growth, and potential for expansion.

Promote product value chain development and intersectoral linkages.
Product value chain development involves expanding both forward and backward linkages within an industry's supply chain. Nigeria should prioritise this to boost efficiency, competitiveness, and sustainability. This includes improving product quality, connecting small-scale producers to more significant markets, and supporting rural development to reduce poverty.

Monetary Policy

Harmonise financial system management guidelines.
The CBN's sporadic policy announcements lack consistency, causing uncertainty in the financial system. The CBN must establish clear and comprehensive guidelines to offer investors certainty when making investment decisions in the economy.

Develop a capital mobility framework/guideline.
The CBN should create a clear capital mobility framework, defining how money moves in and out of the country. Regardless of the exchange rate, this clarity boosts investor confidence in utilizing the country's high-interest environment.

Policy Recommendations

Built Capital

Fiscal Policy

Target infrastructure development at industrialisation and sectoral growth. Infrastructure development involves building physical, sector-specific, trade, and social structures to enhance industrial productivity and support manufacturing and other value-added sectors. This includes connecting cities, ports, and borders with cargo train networks, improving transportation (road, water, air), establishing storage and standardisation facilities, enhancing power supply to industries, and creating industrial zones.

Promote investment in digital infrastructure development.
Digital infrastructure development involves establishing and maintaining technological capabilities for IoT, virtual operations, and online services like internet backbone, broadband, data centres, cloud services, and security measures. This is crucial for optimising operations across all economic entities.

Strengthen the PPP regulatory framework.
PPP is a crucial funding approach for infrastructure development, mobilising resources effectively. To support this, the government should create a solid legislative framework, providing legal support for PPP projects, even amidst changes in government.

Policy Recommendations

Human Capital

Fiscal Policy

Recalibrate the education and capacity-building system to deliver an industrially relevant workforce.
Fostering industrially relevant skills and education is vital for inclusive economic growth. Governments should sync curricula with industry needs, partner with private sectors, and broaden vocational training. Creating specialised schools for artisan and trade training, with more accessible entry requirements, can offer formal skills training and structured apprenticeships for young people.

Promote innovation in healthcare services to expand healthcare access and improve health outcomes.
Healthcare is crucial for economic transformation and inclusion. The World Health Organisation (WHO) acknowledges the surge in digital healthcare innovations, which include artificial intelligence, gene editing, 3D printing, and virtual reality, which can potentially improve patient outcomes. Creating and adopting new ideas, products, and personal care corridors will expand Nigeria's healthcare capacity.

Institutionalise a social safety net and welfare services framework.
The government needs to improve physical and economic access to food, nutrition, health and education. Deprivation in these regards often leads to low human capital outcomes. Besides, the government needs to develop a framework for emergency responses to social risks such as terrorist and banditry attacks, environmental hazards, economic shocks, unemployment, injustice, and poverty.

Policy Recommendations

Social Capital

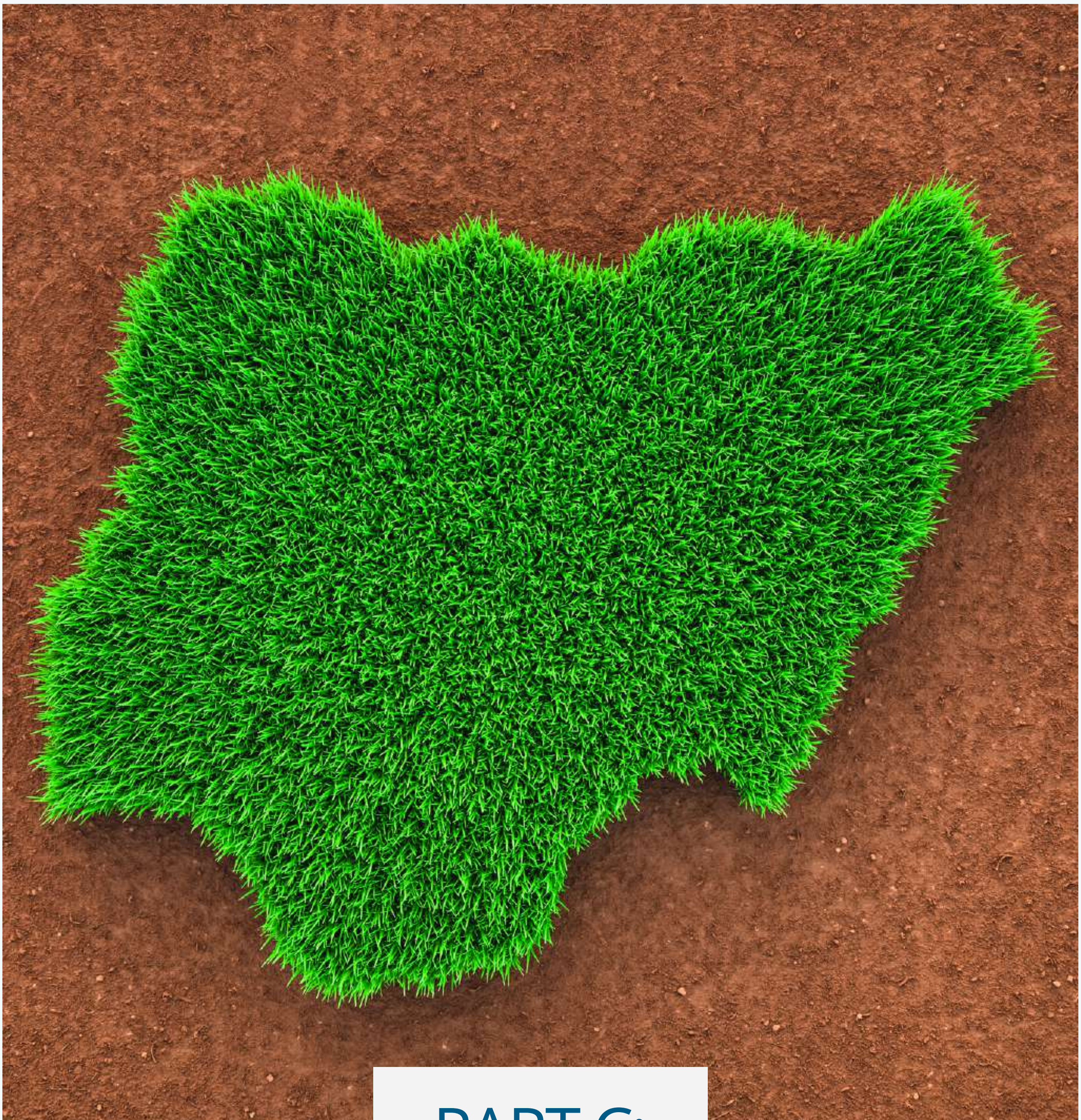
Fiscal Policy

Garner socio-political consensus and propagate a national reorientation to facilitate economic transformation in Nigeria.
Nigeria faces several social challenges, such as insecurity motivated by secessionist drive, ethnic agitation, religious extremism, low national cohesion, corruption, tribalism and nepotism, state capture and rent-seeking, lack of trust and low level of patriotism. These issues interfere with decision-making and inhibit economic progress. The government needs to instigate a social consensus among stakeholders – corporate, political, elite, and civil societies – to act in a way that facilitates economic transformation.

Strengthen the inter-governmental economic management framework.
The National Executive Council provides a platform for the levels of government to facilitate policy collaboration. This, however, needs to be strengthened for cooperation and to coordinate efforts toward improved economic outcomes for Nigerians. The government must develop inter-government coordination mechanisms, shared economic vision and strategy, adequate data and information sharing system, and seamless resource allocation and fiscal coordination.

Establish region-specific development agenda.
Due to the difference in economic characteristics of regions in Nigeria, there is a need for varying development priorities across regions. A non-exclusive region-specific agenda is needed to develop frameworks for inter-state economic relationships, inter-state infrastructural development, establishing effective regional economic commissions, developing regional shared services and clustering, and strengthening regional value chain development to optimally exploit the resources of each region/state and create an equitable spread of opportunities across the country.

Collaborate with the legislative arm to remove all legislative encumbrances to activate growth acceleration across sectors of the economy.
Many sectors of Nigeria's economy are being held down by some legislation inhibiting growth. There are over 100 Bills awaiting passage in the National Assembly to lift various forms of legislative encumbrance on the economy. The executive government needs to liaise with the legislature to get these Bills reviewed and passed as part of market reforms to propel economic transformation.



PART C:

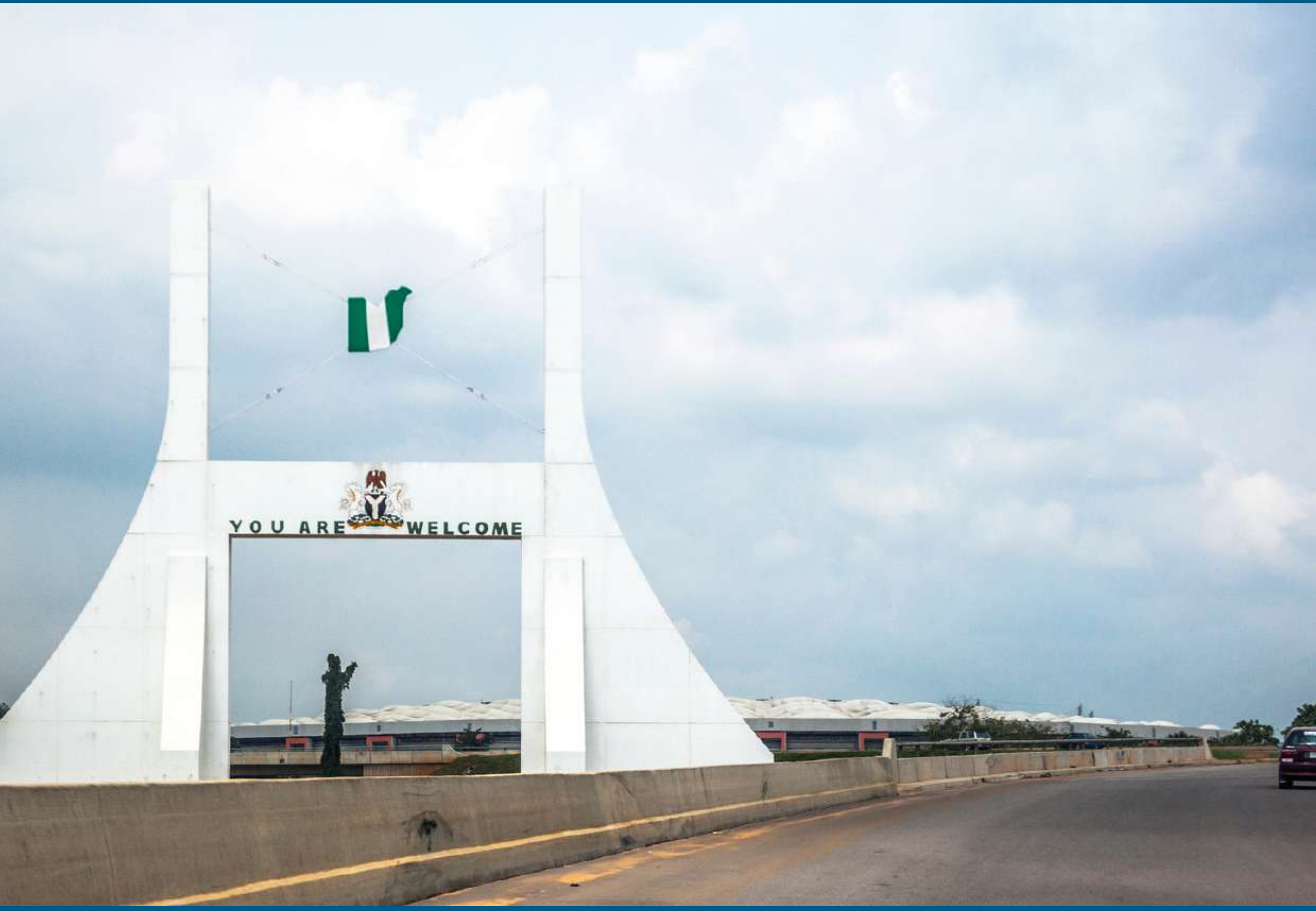
Nigeria in 2024: Outlook and Risk Assessment

Introduction

This section introduces a scenario framework and outcomes derived from a comprehensive overhaul of the Nigerian economy following the robust implementation of critical policy suggestions. It sets the stage for a scenario framework and envisions the outcomes resulting from a comprehensive overhaul of the Nigerian economy, driven by the robust implementation of critical policy suggestions outlined in Part B of this report. This scenario assumes a sustained improvement in Nigeria's economic prospects.

Furthermore, this section offers projections for alternative scenario outcomes by examining various potential trajectories influenced by addressing existing challenges and inflection points. These projections are plausible counterfactuals to the Comprehensive Overhaul scenario, assuming the government diligently executes the recommended reforms and policy programmes outlined in Part B of this report.

This assumption envisions a sustained enhancement in Nigeria's economic prospects. Additionally, this section presents projections for alternative scenario outcomes by considering various potential trajectories shaped by resolving existing challenges and inflection points.



MACROECONOMIC PROJECTIONS FOR 2024

The new administration's grandiose approach to policy announcements and implementation in Nigeria has created an unprecedented blend of economic certainty and elusive promises, leaving both domestic and foreign investors and other stakeholders in a state of cautious optimism. This distinctive style has garnered favourable reviews for the economy and fortified the country's position as it approaches the close of 2023.

Amidst this context, the outlook for 2024 is intricately shaped by a myriad of external and domestic factors, reflecting the dynamic nature of both local and global economic terrains. Global developments, encompassing the trajectory of global output, fluctuations within the global crude oil market, international trade dynamics, and other pertinent factors, will undeniably influence this outlook. Concurrently, the domestic economic landscape will be influenced by fiscal spending. At the same time, the stabilisation efforts of the government will play a pivotal role in shaping the performance trends of key macroeconomic indicators in the upcoming year.

This section presents the anticipated forecast for 2024, covering real GDP growth, inflation rates, foreign reserves, exchange rates, and the unemployment rate. These figures serve as pivotal indicators, offering insights into the expected economic landscape and shedding light on the potential trajectory for 2024.

Rationale

Nigeria's macroeconomic projections for 2024 hinge on the assumption of a global crude oil price averaging US$90/barrel, notably higher than the proposed US$77.96/barrel delineated in the 2024 budget. This projection anticipates a scenario where conflicts in the Middle East disrupt global oil supply and the lingering impact of the Russia-Ukraine crisis maintains a subdued momentum in the energy market. Consequently, this situation is poised to generate surplus demand for crude oil, sustaining elevated prices throughout the year.

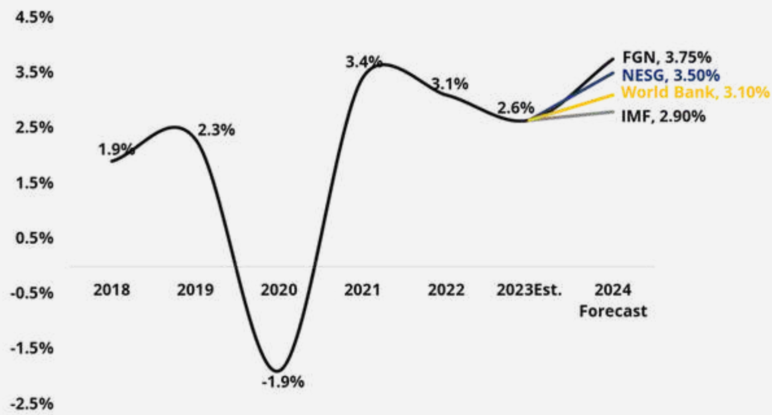
Concurrently, intensified efforts to curb crude oil theft and boost oil production in Nigeria are expected to yield an average crude oil production of 1.75 million barrels per day (mbpd) in 2024. This represents a notable improvement from the 1.30 mbpd recorded in 2023 but stands 1.7 percent lower than the targeted 1.78 mbpd outlined in the 2024 budget. This scenario sets the stage for the government to accrue higher revenue in 2024, fostering enhanced budget implementation performance, improved fiscal deficit management, and a possible augmentation of funds allocated towards capital expenditure.

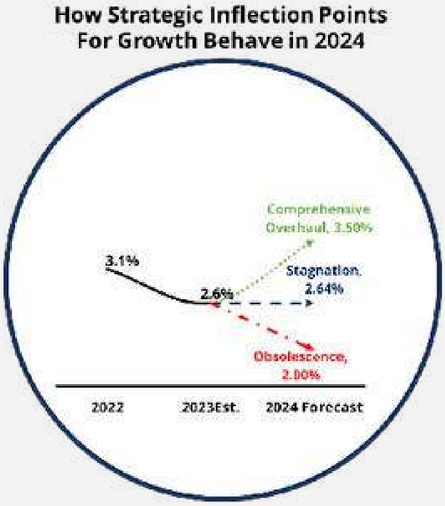
Based on these assumptions, the expected outcomes are as follows:

Real GDP growth is expected to rise rapidly to 3.50 percent in 2024 (see Figure 16). Various reform programmes initiated by the government are expected to trigger an uptick in economic growth as strains on investment are addressed, and low productivity in critical sectors is resolved. The Services sector will remain the economy's key driver, while the anticipated rebound of the country's Oil sector will push stronger real GDP growth in 2024.

Based on the optimistic view of a comprehensive overhaul of the country's economic system and stable outlook, Nigeria is expected to experience inflows of investments into key sectors. This will result in improved sectoral productivity and generate significant jobs that would moderate or slow down the growth of unemployment and underemployment in Nigeria.

Figure 16: Forecast for Real GDP in 2024



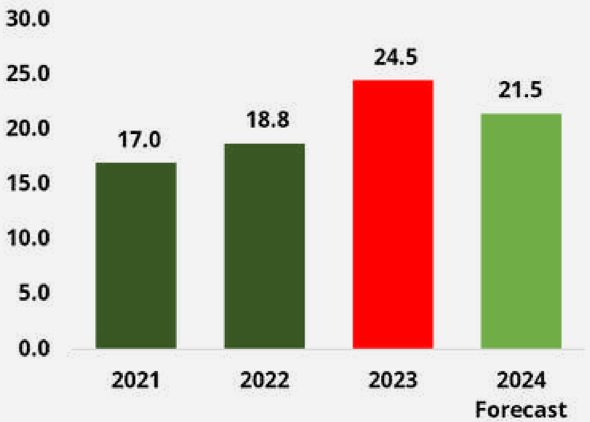


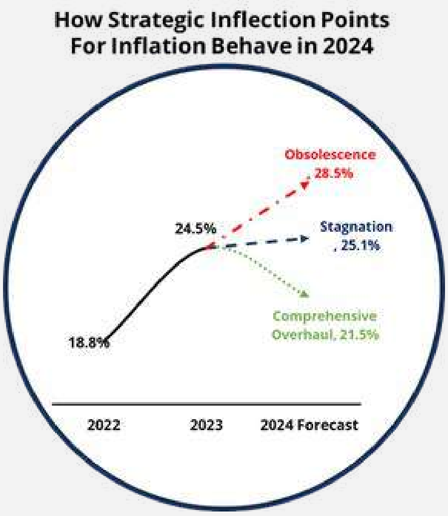
The country is expected to experience moderate inflationary pressure in 2024. The inflation rate is projected to average 21.5 percent in the year from an estimated average of 24.5 percent in 2023. The slowdown in inflationary pressure will be driven by lower deficit monetisation structural, relative exchange rate stability, and other heightened monetary measures by the Central Bank. In addition, food inflation will remain the fundamental driver of inflation due to increased cost of credit, insecurity and internal displacement. The removal of fuel subsidies will continue to increase core inflation, primarily through high transport and energy costs.

While anticipating enhanced productivity and output in labour-intensive sectors such as Construction, Agriculture, Trade, and Manufacturing sectors, the acceleration of unemployment rates are projected to slowdown. The rate is anticipated to ascend to around 5.0 percent, while the poverty headcount is expected to approach 41.5 percent due to improved performance in these job-intensive sectors. With a population growth rate estimated at 3.2 percent, this trajectory is set to bolster the overall impact of economic growth on real per capita income.

The convergence of these effects and a stable policy environment will bolster foreign capital inflows in 2024. The nation is poised to maintain a trade surplus, accumulate more foreign reserves, and witness a subsiding exchange rate pressure throughout the year. Reduced political risks and improved returns on investments will likely entice the return of confident foreign investors and activate previously dormant funds held by local investors.

Figure 17: Trend of Inflation in 2024





Furthermore, an anticipated increase in local crude oil production and a favourable global oil price outlook will sustain the trade surplus and accelerate growth in the country's external reserves. Limited CBN's intervention in the foreign exchange (FX) market is projected to foster an increase in foreign reserves to approximately US$40.0 billion by the close of 2024. Consequently, the official exchange rate is expected to reach N900/US$, signalling a positive trajectory. Likewise, an amelioration in FX shortages is expected to stabilise the operations of the black market, where the exchange rate will exhibit relative stability and depreciate at a slower pace compared to the fluctuations experienced in 2023.

In 2024, Nigeria's monetary policy is set to prioritise price stability, leaning towards adopting more tightening measures to sustain this goal. This approach involves maintaining high lending rates to foster an environment conducive to increased investment. Moreover, the dovish policy stance anticipated in developed economies could reverse capital inflows towards developing and emerging markets like Nigeria. Consequently, Nigeria is poised to sustain a high-interest-rate environment to attract these inflows and mitigate inflationary pressures.

A proposed banking sector consolidation plan for 2024 also aims to fortify Nigeria's financial market. This initiative is expected to bolster the country's financial sector and enhance credit availability to the private sector, thereby supporting and stimulating activities within the real sector.

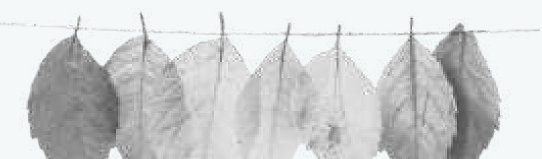
In 2024, a reduction in the fiscal deficit is anticipated to ameliorate Nigeria's sovereign risks. The 2024 budget emphasises deficit reduction, signalling a positive shift in the upward trajectory of revenue, consequently slowing down the growth of the public debt stock. This trajectory is expected to bolster fiscal sustainability. In addition, the implementation of the quick-wins identified by the Presidential Committee on Fiscal Policy and Tax Reforms would further strengthen the fiscal policy environment of the country.

Government revenue is anticipated to surge due to substantial savings from removing fuel subsidies and the exchange rate devaluation. Furthermore, the expected rise in crude oil prices and improvements in crude oil production are projected to bolster revenue streams, diminishing the likelihood of debt repayment issues. This, in turn, is poised to reduce potential sovereign risks as the country's capacity to repay debts strengthens.

Upside and Downside Risks to Nigeria's 2024 Macroeconomic Projections

This section highlights the risks that could influence the economic outlook across indicators. The risks, if any occur, could make the forecast indicators perform above or below expectations.

FORECAST INDICATOR	RISK SCENARIO	RISK NATURE
GDP Growth	The commencement of operations at the Dangote refinery in the first quarter of 2024 could moderate the contraction in the Oil refining sector and support the Manufacturing sector.	Upside
	The fuel subsidy removal and high transport costs would negatively impact the Transport sector, which is expected to remain in contraction.	Downside
	Lower investment in the Oil and Gas sector and crude oil theft remaining unchecked constitute a threat to domestic crude oil production.	Downside
Inflation	Persistent climate-induced shocks (such as flooding) and pervasive insecurity could prompt a slowdown in crop production and push up food prices.	Upside
	The persistent weakness of the domestic currency due to illiquidity of foreign exchange market.	Upside
	Setting a bar on petrol pump prices could reduce the degree of pass-through effect of fuel subsidy removal on the prices of food and non-food items.	Downside
Policy Outlook – fiscal & monetary positions	The policy posture of the government signals minimal dependence on public borrowing, thereby putting less threat to fiscal sustainability.	Downside
	Higher FAAC allocation is expected due to fuel subsidy removal and currency devaluation.	Upside
	The need to attract an influx of foreign investments will keep monetary policy tightened despite a possible slowdown in inflation.	Upside
External Sector Outlook – trade & investment positions	Foreign exchange shortages and a lack of adequate hedging instruments could disincentivise foreign investment inflows.	Downside
	Low accretion to external reserves due to decoupling between oil prices and external reserves despite elevated global oil prices.	Downside

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The NESG is an independent, non-partisan, non-sectarian organisation committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought to explore, discover and support initiatives to improve Nigeria's economic policies, institutions and management.

Our views and positions on issues are disseminated through electronic and print media, seminars, public lectures, policy dialogues, workshops, specific high-level interactive public-private sessions and special presentations to the executive and legislative arms of government.

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