2025 Macroeconomic Outlook

Stabilisation in Transition:

Rethinking Reform Strategies For 2025 and Beyond

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2025

MACROECONOMIC
OUTLOOK

STABILISATION IN TRANSITION:

RETHINKING REFORM STRATEGIES FOR 2025 AND BEYOND

FOREWORD

In 2024, the global economic landscape was significantly affected by heightened geopolitical tensions and escalating conflicts that disrupted economic activities. Persistent inflation exerted significant pressure on households and businesses, but its gradual decline towards the end of the year allowed most advanced economies to ease interest rates, providing relief and a pathway toward economic stability.

Nigeria has pursued economic stabilisation through a combination of monetary and fiscal reforms, including exchange rate liberalisation, stricter macroprudential measures, the removal of selected subsidies, and the restructuring of the tax system. These reforms resulted in some economic gains but further deepened macroeconomic imbalances.

In our 2024 Macroeconomic Outlook Report, we reiterated the critical need for the government to pursue an economic transformation agenda to drive high, sustainable economic growth. The report developed an Economic Transformation Roadmap for Nigeria. While Nigeria experienced modest economic growth in 2024, the growth has remained sub-optimal due to persistent macroeconomic instability, which worsened socio-economic outcomes. This highlights the need for rethinking reform strategies in 2025 and beyond.

The 2025 Macroeconomic Outlook Report provides the opportunity to rethink economic reform strategies. The report delivers a comprehensive analysis of Nigeria's recent reforms and offers critical lessons for shaping future economic policies. We trust that the findings and recommendations of this report will serve as a valuable resource for policymakers and other stakeholders, fostering informed discussions and contributing to sustainable growth and economic transformation.

Dr. Tayo Aduloju
CEO, NESG

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EXECUTIVE SUMMARY

This report builds on the foundational stabilisation phase outlined in the 2024 NESG Macroeconomic Outlook Report, forming a critical part of Nigeria's economic transformation roadmap. It analyses the bold reforms initiated in mid-2023, which significantly impacted the economy throughout 2024 while emphasising the urgent need to recalibrate future strategies to ensure sustainable growth and improved living standards. The report provides a holistic roadmap for achieving macroeconomic stability, addressing structural inefficiencies, and laying the groundwork for long-term economic resilience. It is structured into three key sections:

Part A: Nigeria's Economy in 2024
This section evaluates Nigeria's economic performance in 2024, spotlighting macroeconomic trends and sectoral developments. It introduces the NESG Macroeconomic Condition Index (MCI) and Heatmap, which track stability and instability cycles over the past two decades, providing insights into the drivers of economic growth and volatility.

Part B: Stabilisation in Transition—Rethinking Reform Strategies for 2025 and Beyond
This section underscores the recalibration of stabilisation strategies to address emerging challenges, ensuring sustainable growth and enhanced living standards. It highlights three pivotal reform priorities for 2025:
i. Controlling Inflation: Achieving stable and moderate inflation through

- **Fiscal Policy:** Strengthening fiscal discipline by boosting revenues through progressive tax reforms, reducing wasteful expenditures, and redirecting subsidy removal gains into targeted social programs.
- **Monetary Policy:** Enhancing the monetary policy transmission mechanism for sustainable price stability.
- **Trade Policy:** Lifting import bans and reducing tariffs on essential goods to address supply-side constraints and stabilise prices.

ii. Boosting Foreign Exchange (FX) Liquidity and Stabilising FX Rates: Strategies include streamlining trade processes, enhancing remittance inflows through digitalisation, and maintaining a credible monetary policy framework to build investor confidence and ensure exchange rate stability.
iii. Improving Fiscal Performance and Reducing Debt Vulnerabilities: Strategies centred on revenue-driven fiscal consolidation, reallocation of expenditures, and the use of non-debt financing mechanisms (e.g., PPPs) to reduce debt levels and promote fiscal stability.

These reforms aim to create a stable macroeconomic environment conducive to investments, job creation, and poverty alleviation.

Part C: Macroeconomic Projections for 2025 and Beyond
The final section outlines projections under two scenarios:

- **Scenario One:** Successful implementation of reform strategies, yielding improvements in GDP growth, inflation control, and exchange rate stability.
- **Scenario Two:** Risks of sub-optimal policy execution or reform reversals, leading to economic stagnation and heightened vulnerabilities.

In conclusion, this report offers a detailed roadmap for navigating Nigeria's stabilisation phase and beyond. The outlined strategies aim to mitigate risks of prolonged volatility, ensure macroeconomic resilience, and lay the foundation for sustained economic transformation. Nigeria can accelerate its journey toward inclusive and sustainable development by adopting these recommendations.

Olusegun Omisakin Ph.D.
Chief Economist & Director of Research and Development.

PART A

Nigeria's Economy in 2024

Overview of the Economy

The continuation of critical reforms initiated by the government in mid-2023 shaped Nigeria's economy in 2024. The reforms were aimed at stabilising the economy and addressing systemic and structural challenges that have long impeded strong economic growth. Among these reforms was the introduction of a unified exchange rate designed to eliminate market distortions, which had previously discouraged investment and fuelled speculative activities. The government also removed subsidies and enhanced domestic revenue mobilisation through planned fiscal and tax reform initiatives. While these reforms were bold and represented significant steps toward fostering a more resilient and inclusive economy, the Nigerian economy remained burdened by a challenging macroeconomic landscape in 2024.

Global headwinds, including energy price volatility and geopolitical tensions, further compounded the economic difficulties of developing economies, including Nigeria, in 2024. These factors partly fuelled Nigeria's high imported inflation and weakened economic growth. In addition, rising interest rates in Advanced economies tightened global financing conditions, elevating borrowing costs in the international financial markets.

Cumulatively, these conditions (internal and external) created a fragile macroeconomic environment, characterised by weak performance across key indicators such as real Gross Domestic Product (GDP), inflation, exchange rate, fiscal balance, and foreign capital inflows. Rising public debt further strained the government's capacity to address critical socio-economic challenges. Long-term foreign capital, particularly FDI inflows, remained subdued, with less than US$0.5 billion recorded in the first three quarters of 2024, reflecting heightened investor concerns over the nation's economic environment (see Table 1).

Table 1: Evolution of Nigeria's Macroeconomic Indicators [1]

		2021				2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Drivers	Real GDP Growth (%)	0.5	5.0	4.0	3.9	3.1	3.5	2.2	3.5	2.3	2.5	2.5	3.4	2.9	3.1	3.4	3.5
	Inflation (%)	17.3	17.9	17.0	15.6	15.7	17.7	20.3	21.3	21.9	22.4	25.5	28.1	31.6	33.9	32.7	34.4
	Fiscal balance (₦Billion)	-1984.4	-1446.3	-1853.6	-1625.8	-3431.4	-2241.3	-1803.1	-1854.3	-3962.0	-2633.7	-2655.5	-4250.3	-4179.8	-4260.5	-4448.5	-3205.3
	Exchange rate (US$/NGN)	404.5	410.1	410.7	418.8	415.0	415.3	430.3	449.0	460.8	565.6	761.6	889.3	1410.9	1428.1	1603.2	1622.7
	Interest rate (%)	28.5	28.6	27.7	27.3	29.3	27.5	27.9	28.5	28.1	28.6	27.4	27.7	27.7	29.1	29.6	30.6
Signals	Manu. Growth (%)	3.4	3.4	4.2	2.2	5.8	3.0	-1.9	2.8	1.6	2.2	0.4	1.3	1.4	1.2	0.9	1.1
	Agric. Growth (%)	2.2	1.3	1.2	3.5	3.1	1.2	1.3	2.0	-0.8	1.5	1.2	2.1	0.1	1.4	1.1	2.1
	Trade balance (₦Trillion)	-1.8	0.3	-0.2	-0.1	-0.3	1.0	-0.4	1.0	0.0	0.1	1.3	3.6	5.2	4.0	5.8	6.7
	Capital inflows (US$'Billion)	1.9	0.9	1.7	2.1	1.6	1.5	1.2	1.1	1.1	1.0	0.7	1.1	3.4	2.6	1.2	2.6
	Public debts (₦Trillion)	33.1	35.4	38.0	39.6	41.6	42.8	44.1	46.2	49.8	87.3	87.9	97.3	121.6	134.2	140.6	142.7
	Foreign reserves (US$'Billion)	35.1	33.0	41.6	40.2	39.2	39.1	37.3	36.6	35.1	33.7	32.7	33.2	32.2	34.7	39.2	40.9

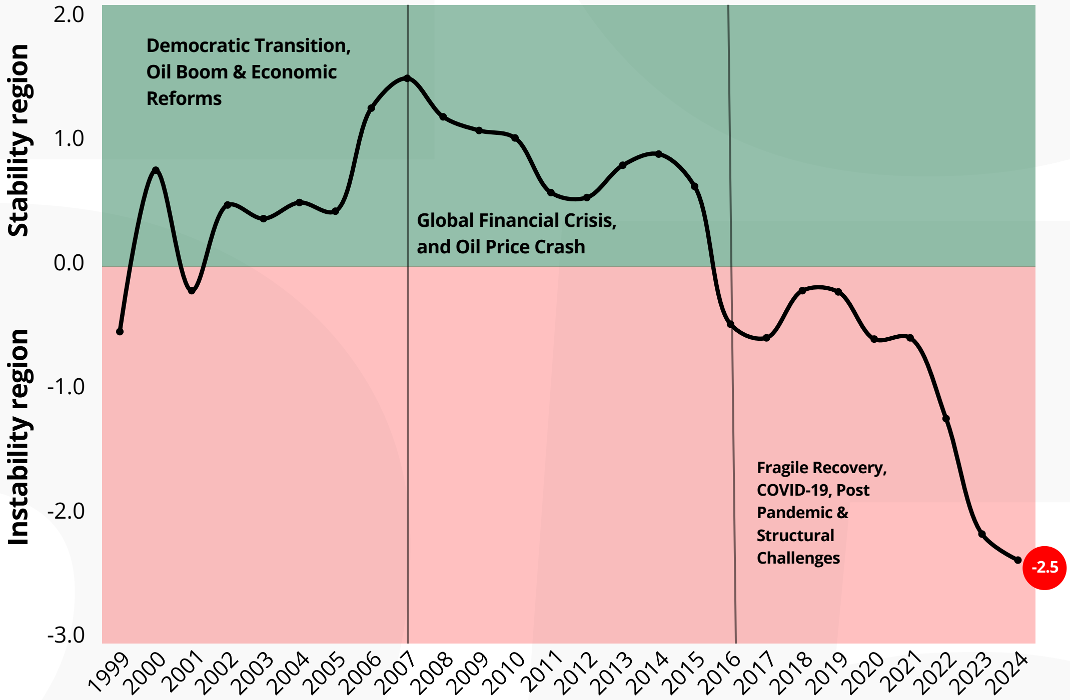
Data: NBS, Central Bank of Nigeria — Heatmap: NESG Research

[1] Calculation: A quarter-on-quarter performance analysis to account for short-term policy impacts

These developments underscored the deterioration of macroeconomic conditions in 2024, which were partly the result of initial policy shocks, broader systemic issues, and existing binding constraints to growth. However, the ongoing reforms laid a foundation for potential improvements in economic stability and growth over the medium to long term, signalling the possibility of a gradual recovery if sustained and effectively implemented.

The NESG Macroeconomic Condition Index (MCI)[2] reveals that Nigeria fell into the instability region, plummeting to a historic low of -2.5 points in 2024. This reflects adverse economic pressures affecting the economy compared to 2016 (-0.5 points) (see Figure 1), underscoring Nigeria's economic challenges in 2024, including persistently high inflation, exchange rate instability, and weak fiscal performance. Aside from the real GDP growth, the performance of indicators (real GDP growth, inflation, fiscal balance, exchange rate and interest rate) used in computing the index worsened in 2024. The historical performance of the index is delimited into three parts, along the lines of some underlying domestic and global events. Despite the Nigerian government's efforts to implement crucial reform programmes to foster stability and stimulate growth, these initiatives struggled to offset the compounded effects of global economic shocks and domestic structural inefficiencies. The record-low index level highlights the urgency of an adequate response to these challenges in order to restore economic growth and improve socio-economic outcomes.

Figure 1: Trend of Nigeria's Macroeconomic Condition Index (2010 =1.00)



Source: NESG Research

NB: Data for 2024Q4 for the indicators (except exchange rate) used in computing the index are estimated.

[2] The Macroeconomic Condition Index developed by the Nigerian Economic Summit Group (NESG) provides a comprehensive assessment of the country's economic health. This index is derived through a statistical process, Principal Component Analysis (PCA), that combines key macroeconomic indicators such as the real GDP growth rate, inflation rate, exchange rate, fiscal balance, and interest rate—considered the primary drivers of macroeconomic conditions. Similarly, Maastricht Criteria employs these indicators to evaluate the macroeconomic stability of European countries.

The results of this NESG Macroeconomic Condition Index are between negative (instability) and positive (stability), and 2010 is considered the base year for this index. Using 2010 as a base period for examining economic stabilisation in Nigeria offers a balanced point of reference before several significant economic disruptions, allowing for a comprehensive analysis of stabilisation policies. It marks a period of relative growth and policy stability that can serve as a benchmark to measure the impacts of both domestic policies and external shocks on Nigeria's economy.

Despite the Nigerian government's efforts to implement crucial reform programmes aimed at fostering stability and stimulating growth, these initiatives struggled to offset the compounded effects of global economic shocks and domestic structural challenges. The record-low index level highlights the urgency of addressing these challenges to restore growth and improve socio-economic outcomes.

Against this backdrop, four key themes emerged as defining elements of Nigeria's economic narrative in 2024.

FOUR KEY THEMES OF NIGERIA'S ECONOMIC NARRATIVE IN 2024

01

RISING COST & WEAK PRODUCTIVITY

Nigeria faced a notable surge in costs, which hindered economic growth.

02

POLICY CLARITY & CONSISTENCY

Clear policy directions in 2024 transformed Nigeria’s economic trajectory.

03

POLICY SYNCHRONISATION

Gaps in monetary and fiscal policies synchronisation were less intense.

04

ROBUST EXTERNAL SECTOR GROWTH

A stable exchange rate and strong oil exports bolstered the external sector.

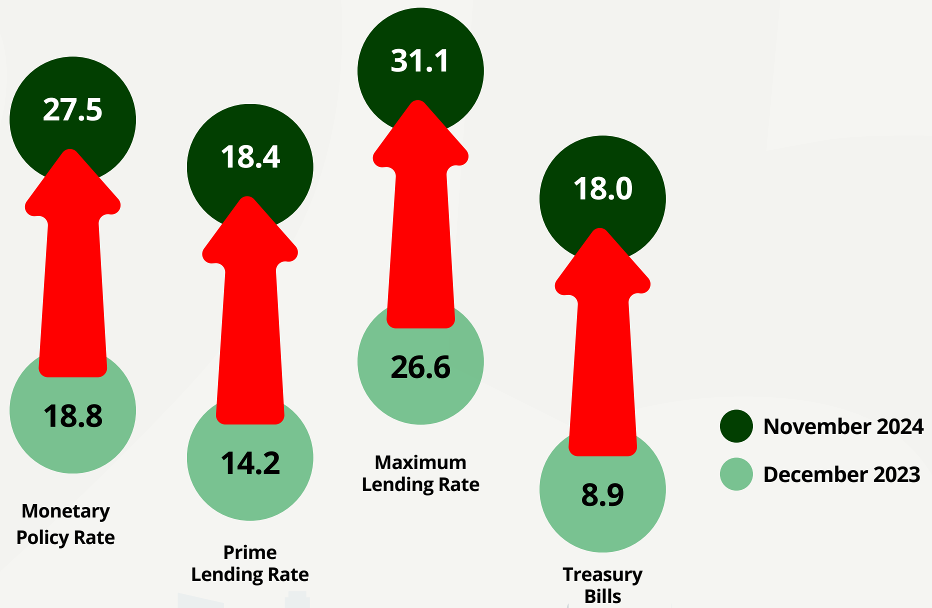
Key Themes that Shaped the Economy in 2024

1 Nigeria faced a notable surge in costs, which hindered economic growth.

Rising economic costs significantly worsened the conditions of households, businesses, and the government. First, credit costs rose by at least 4.0 percentage points compared to December 2023 (see Figure 2), tightening access to finance and narrowing opportunities for business expansion and household investment in productive activities. The NESG-Stanbic IBTC Business Confidence Monitor and the Business Expectation Survey conducted by the Central Bank of Nigeria (CBN) consistently identified limited access to financing and high interest rates as one of the top three (3) constraints that affected business growth in 2024. This credit squeeze hindered economic growth by limiting capital availability for critical sectors.

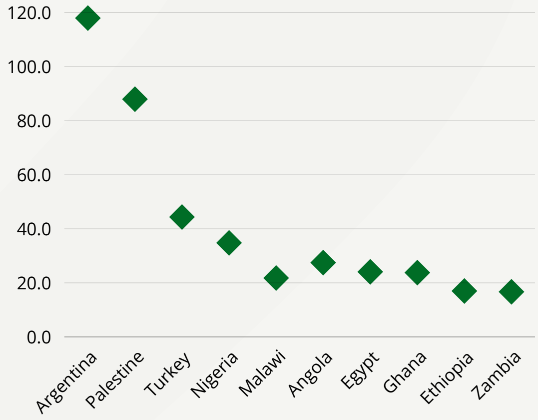
The Naira's significant depreciation against major global currencies further exacerbated costs, given the economy's reliance on imports. The exchange rate (Naira/US$) depreciated by 41.4 percent to close at the year ₦1,536.5/US$ on December 31 (CBN, 2024), driving up import costs and placing additional financial strain on businesses that rely on imported raw materials, and tradable goods and services. The Input Prices of CBN Purchasing Managers Index (PMI), a proxy for the Producer Price Index (PPI), underscored rising business costs as it maintained an uptick posture through the year and settled at 74.7 index points by November 2024, up from 69.1 at the beginning of the year (CBN, 2024).

Figure 2: Nigeria's Interest Rates Environment in 2024 (Percent)



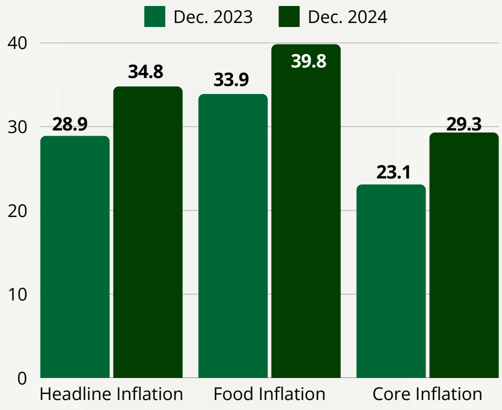
Data Source: CBN

Figure 3: Countries with the Highest Monthly Inflation Rate (Percent) in December 2024



Data Source: Trading Economics

Figure 4: Performance of Nigeria's Inflation Rates in 2024 (Percent)

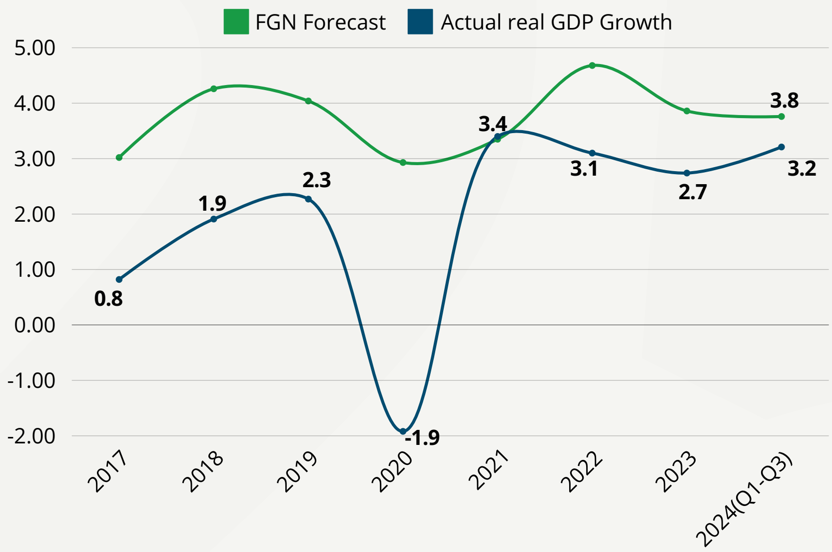


Data Source: NBS

Nigeria's inflation rate ranked highest in Africa and fourth globally in December 2024, reflecting deteriorating household living conditions (see Figure 3). After peaking at 34.2 percent in June, Nigeria's inflation rate briefly eased but rebounded to 34.8 percent in December 2024 (NBS, 2024). The surge was driven by high food prices, elevated energy prices, transportation, amid rising security challenges, which continued to disrupt supply chains.

The short-term impacts of these elevated levels of costs, among other factors, resulted in the Nigerian economy experiencing a modest GDP growth of 3.2 percent in 2024 (Q1-Q3). As illustrated in Figure 5, Nigeria's real GDP growth has remained below 3.5 percent since recovering from the COVID-19-induced recession in 2020. This modest growth level is insufficient to enhance living standards or substantially reduce poverty significantly.[3] The country's underwhelming economic performance is primarily attributed to its persisting structural issues, weakly diversified economic structure, and productivity challenges across key sectors.

Figure 5: Nigeria's GDP growth rate (Actual vs. Forecast) - Percent

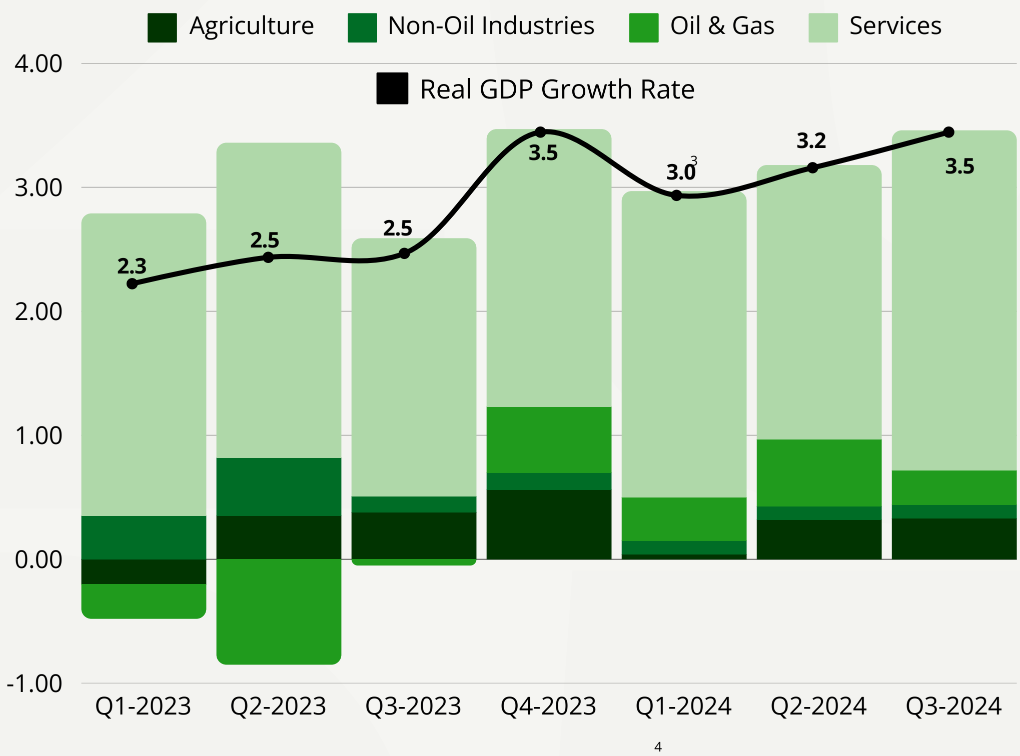


Data Source: FGN Annual Budget, NBS

3 According to the FG's National Poverty Reduction with Growth Strategy, the economy must achieve a growth rate of 4.4 percent by 2024 and sustain 6.0 percent annual growth from 2025 to 2030 to reduce poverty by an average of 11.2 million people per year. This target envisions 80 percent of new jobs in self-employment and 20 percent in wage-paying.

The Agriculture and Non-oil industrial sectors, which sustain a large portion of Nigeria's population as source of employment, are struggling due to climate-related challenges, rising cost, insecurity and infrastructural limitations. Thus, both sectors only accounted for 10.7 percent of Real GDP growth in the first three quarters of 2024, less than the contribution of the Oil & Gas sector (12.2 percent) to growth in the same period (see Figure 6).

Figure 6: Real GDP Growth & Sectoral Contribution to Growth (Percent)

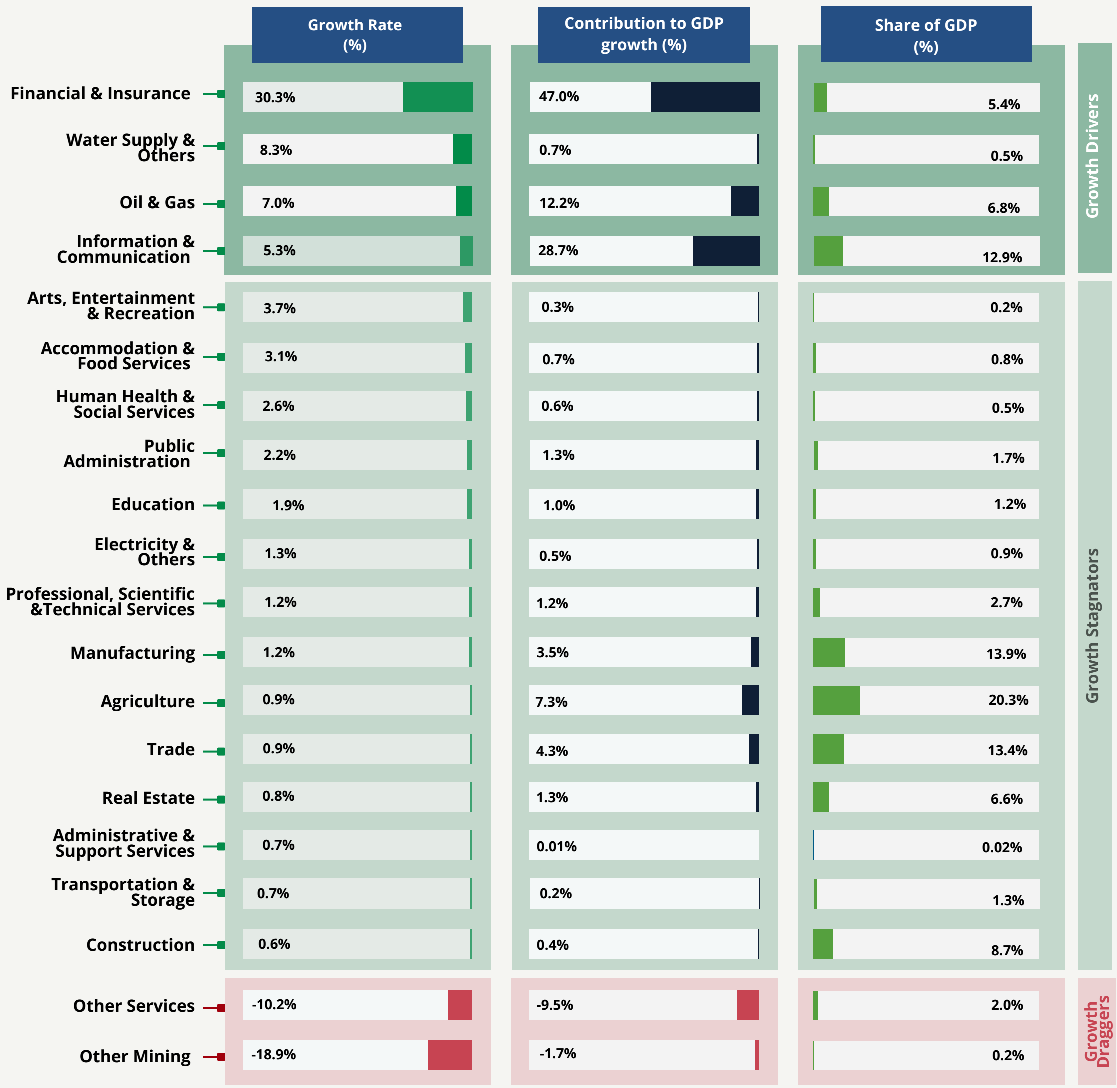


Data Source: NBS | Calculations: NESG Research

A sectoral analysis shows that most critical sectors, apart from Information and Communications (ICT), failed to achieve growth rates above 4 percent during the period under review (see Figure 7). Large employment-generating sectors such as Agriculture, Manufacturing, Trade, Education, and Construction recorded growth rates below 2 percent in the first three quarters of 2024, largely reflecting the lingering effects of the petrol subsidy removal announced in mid-2023, exchange rate depreciation amid other structural challenges like power shortages and challenging business environment during the year.

On a positive note, the Financial and Insurance sector recorded an impressive 30.3 percent surge, while the ICT and Oil & Gas sectors posted growth of 5.3 percent and 7.0 percent, respectively. These sectors played a pivotal role in sustaining overall GDP growth in 2024. To maintain this momentum, the government must strengthen and deepen ongoing reforms to ensure these gains translate into sustainable growth and enhance productivity across key sectors of the economy.

Figure 7: Sectoral Performance in Nigeria (Q1-Q3, 2024)



Data: NBS, Calculations: NESG Research

Nigeria's Monetary Policies & The Economy in 2024

In 2024, the Central Bank of Nigeria (CBN) implemented several policy changes and reforms aimed at stabilising the economy and addressing systemic challenges.

CBN's policies are anchored on currency stability, inflation control, and a resilient banking sector.

A total of **875** basis points was added to MPR in 2024

The CBN increased the Monetary Policy Rate (MPR) multiple times, reaching **27.50%** by year-end 2024, to combat soaring inflation.

Exchange Rate Unification

The CBN unified multiple official exchange rates, fostering a market-determined rate to enhance transparency and attract foreign investment.

Foreign Exchange Market Automation

CBN introduced the Electronic Foreign Exchange Matching System (EFEMS) to automate foreign currency trades in December 2024, replacing the over-the-counter system to improve transparency and reduce market distortions.

Bank Recapitalisation Requirements

CBN set new minimum capital requirements for banks, mandating compliance by March 2026 to strengthen the financial system amid economic challenges.

Impacts on the Nigerian Economy

Inflation Control

After reaching a 28-year high of 34.2% in June 2024, inflation briefly eased in July and August before hitting a new historic high of 34.8% in December 2024.

Exchange Rate Stability

The unification of exchange rates and the planned automation of FX trades brought significant market stability, improved transparency, and attracted foreign investment.

Banking Sector Resilience

The new capital requirements prompted banks to bolster their balance sheets, improving the sector's resilience amid economic challenges.

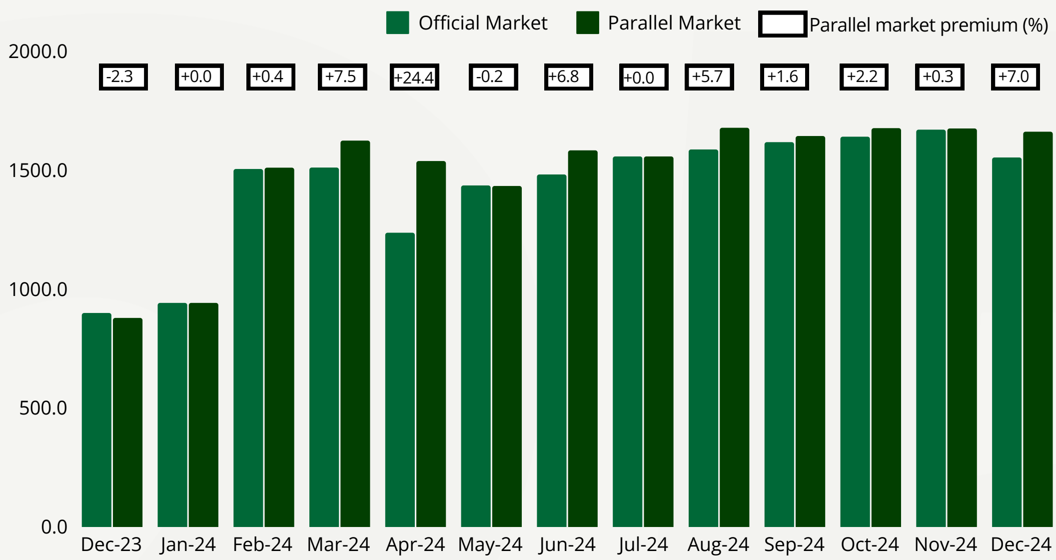
While these reforms targeted economic stabilisation, challenges persisted, including subdued foreign capital inflows and rising public debt, underscoring the need for sustained policy efforts to achieve long-term economic growth.

2 Clear policy directions in 2024 transformed Nigeria's economic trajectory.

In 2024, the Nigerian government achieved significant economic progress, driven by a more transparent and decisive policy approach across multiple sectors. These strategic interventions fostered stability, growth, and renewed confidence in the economy, reflecting the government's commitment to addressing longstanding structural challenges.

The Central Bank of Nigeria (CBN) played a critical role in tackling persistent FX market inefficiencies. Key measures included eliminating parallel market premiums, curbing round-tripping, and removing spreads on foreign interbank transactions. These reforms stabilised the FX market, bolstered external reserves, and ensured positive net FX flows across the economy. By aligning FX policies with broader macroeconomic objectives, the CBN laid the groundwork for enhanced investor confidence and exchange rate stability.

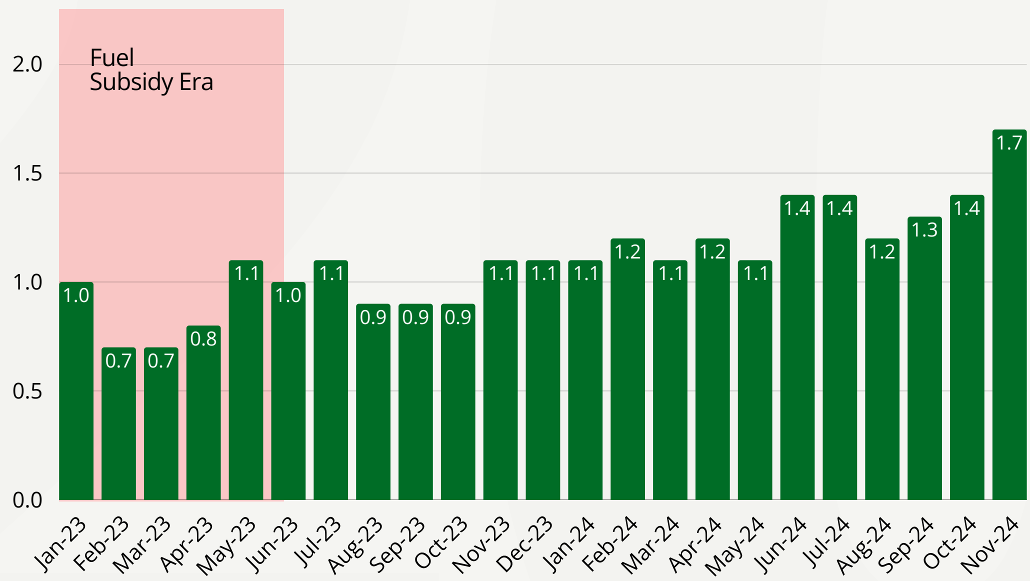
Figure 8: Trend of Nigeria's Exchange Rate (US/NGN) Performance – Period Average



Data Source: CBN, World Bank | **Calculation: NESG Research**

Building on the removal of fuel subsidies initiated in mid-2023, the government sustained this policy throughout 2024. This resulted in a substantial increase in monthly disbursements from the Federal Account Allocation Committee (FAAC), enhancing fiscal stability and improving revenue distribution across federal, state, and local governments.

Figure 9: Monthly FAAC Allocation by Governments in Nigeria (NGN Trillion)



Data Source: Office of Accountant General of the Federation (OAGF)

To further strengthen macroeconomic stability, the Federal Government implemented an innovative policy directing the Nigerian National Petroleum Corporation (NNPC) to sell crude oil to Dangote Refinery and other local refineries in Naira instead of US dollars. This decision, while foregoing potential FX earnings, significantly eased demand pressure on foreign reserves, stabilised the exchange rate, and boosted local currency liquidity.

The sustained implementation of these fiscal and monetary reforms not only stabilised critical economic indicators but also enhanced revenue mobilisation and resource allocation. Increased FX stability and fiscal revenues created an enabling environment for growth, while reduced volatility in the currency market strengthened business and investor confidence.

The combination of strategic interventions and clear policy direction in 2024 marked a pivotal shift in Nigeria's economic trajectory. By addressing key structural bottlenecks, stabilising the FX market, and ensuring fiscal resilience, the government laid a solid foundation for sustained growth, improved macroeconomic stability, and greater economic confidence in the years to come.

4

3 Gaps in monetary and fiscal policies synchronisation were less intense.

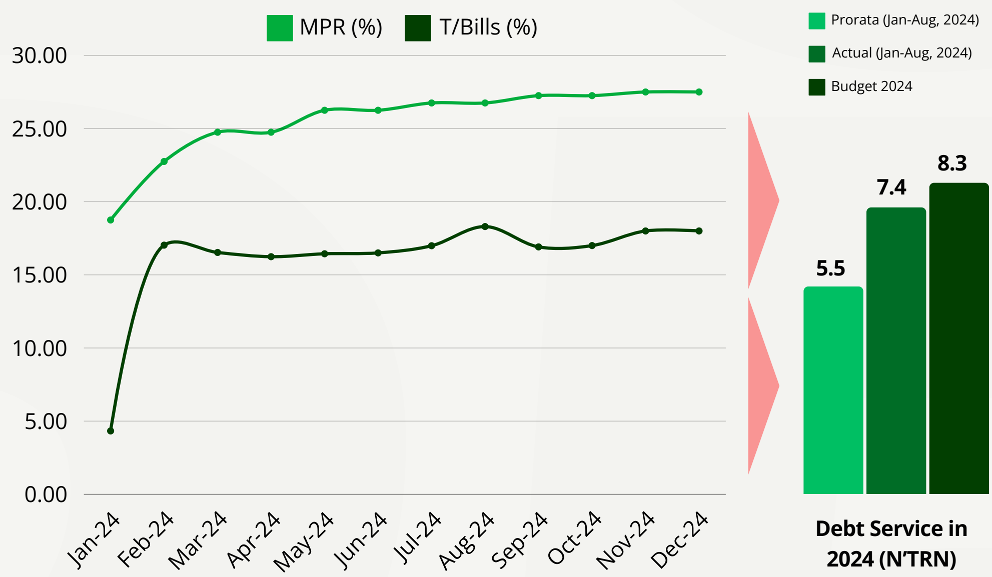
Economic theories emphasise that the synchronisation of monetary and fiscal policies is crucial for effective macroeconomic management, particularly during periods of economic uncertainty or instability. In 2024, Nigeria's economic landscape was significantly impacted by the mismatch between fiscal and monetary policies, which has been a recurring challenge over time. While monetary policy was primarily aimed at controlling inflation, fiscal policy focused on boosting aggregate demand and economic growth. This misalignment of policy objectives not only hindered growth but also deepened existing macroeconomic imbalances.

	Monetary Policy	Fiscal Policy
Goal	Inflation targeting using monetary policy tools.	Boosting aggregate demand using fiscal policy tools.
Policy Stance	CBN's rate hikes, aimed at controlling inflation, curtailed private sector credit growth.	Tax reforms aimed at boosting business investment.
FX Posture	FX market interventions to support currency stability.	Huge external borrowing to finance the budget deficit.
Debt Dynamics	High domestic interest rates drove up debt servicing costs, intensifying fiscal pressures.	High debt accumulation despite concerns with borrowing for recurrent expenditure.

The Central Bank of Nigeria (CBN) maintained a tight monetary policy stance to control inflation, which resulted in MPR's surge from 18.8 percent in January to 27.5 percent in December 2024 (see Figure 10). This, in addition to exchange rate depreciation, contributed to a significant rise in debt service costs. By August 2024, debt service costs had climbed to ₦7.4 trillion, a 34.5 percent increase from prorated figures in FGN's 2024 budget, with Treasury Bill rate reaching 18.0 percent by December 2024 from 4.3 percent in January 2024 (Budget Office of the Federation, 2024; CBN, 2024). The debt service-to-revenue ratio was 58.2 percent, with ₦3.6 trillion spent on domestic debt servicing, up 24.1 percent from the first nine months of 2023 (FGN Budget Office, 2024). External debt service costs also increased to ₦3.8 trillion, up 107.7 percent from prorated figures for the period and 40.7 percent from the prorated 2024 budgeted value, driven largely by naira depreciation.

These rising obligations crowded out public investment, further constraining economic growth and highlighting the urgent need for better coordination between fiscal and monetary authorities.

Figure 10: Implications of Monetary Policy on Fiscal Performance in 2024



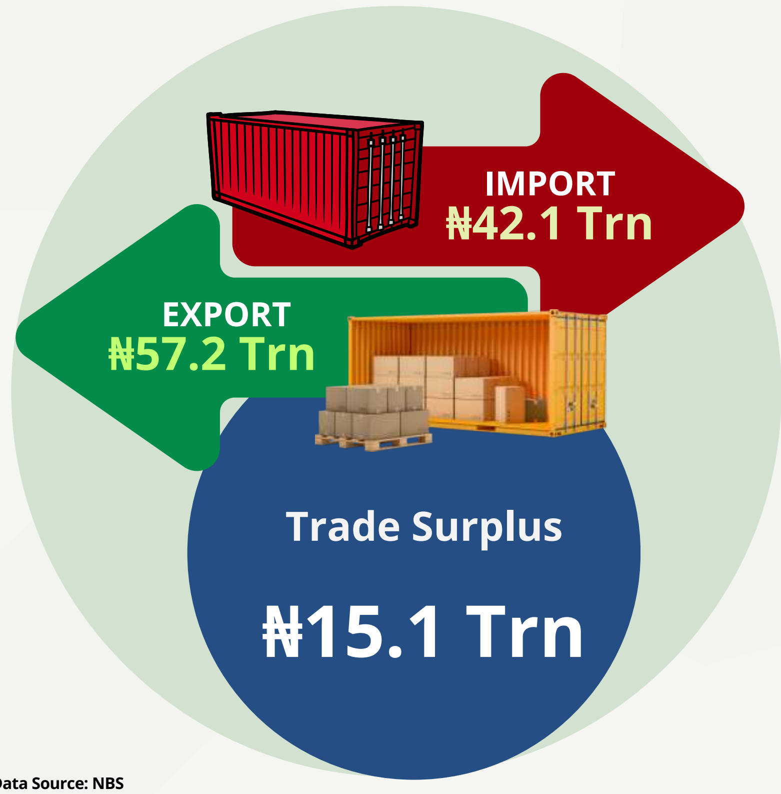
Data Source: CBN, Budget Office of the Federation

4 A stable exchange rate and strong oil exports bolstered the external sector.

Nigeria's external sector in 2024 experienced a notable improvement, mainly due to higher oil export earnings and a more flexible exchange rate regime. This improvement also supported a high accretion in the country's external reserves which strengthened the government's fiscal buffers and triggered improved investors' confidence in the domestic economy.

Bonny Light crude oil prices averaged US$82.6 per barrel in 2024, down from US$85.0 per barrel in 2023. However, higher crude oil production in 2024 (at an average of 1.55 million barrel per day (mbpd) from 1.47 mbpd in 2023) boosted Nigeria's foreign exchange earnings, with oil contributing over 80 percent of export revenue. The country recorded a trade surplus of ₦15.1 trillion[5] in the first nine months of 2024, supported by increased crude oil exports (122.1 percent) and huge growth in non-oil exports (242.8 percent). This significant leap in the growth of Nigeria's trade surplus and exports is primarily attributable to the huge currency depreciation in 2024.

Figure 11: Nigeria's Trade Performance in 2024 (Q1-Q3)



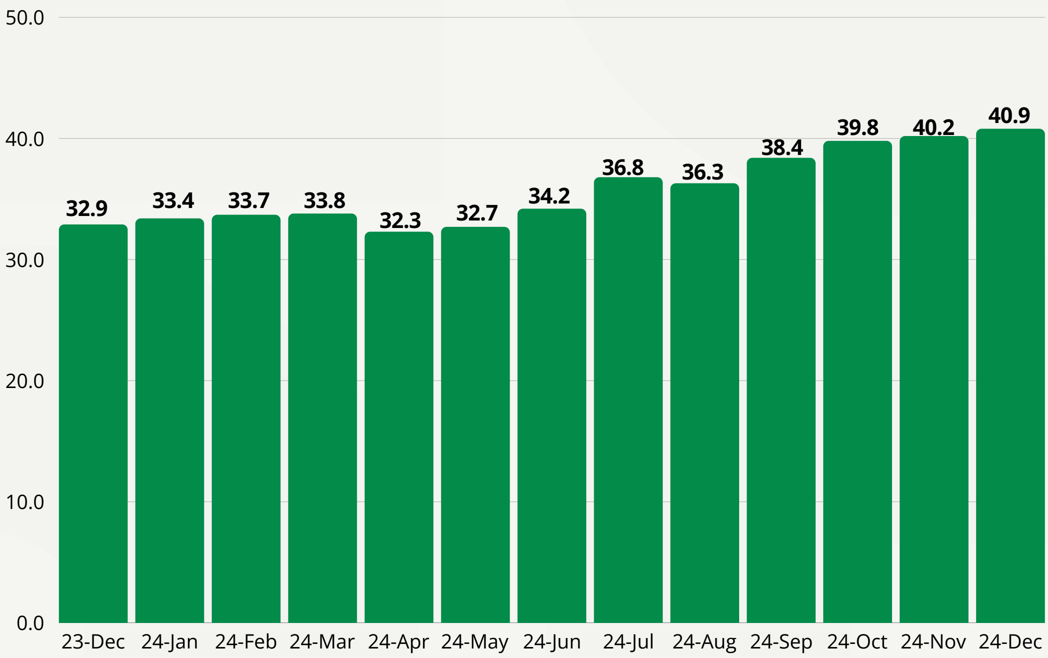
Data Source: NBS

5 This statistics report mainly trade in goods (merchandise trade).

The country's external reserves stabilised at US$40.9 billion by the end of 2024, easing initial exchange rate volatility. This exchange rate stabilisation fuelled higher foreign capital importation, bringing inflows closer to pre-pandemic levels. In the first 11 months of 2024, total foreign capital importation reached US$10.8 billion, marking increases of 175 percent and 197 percent compared to full-year and same-period figures in 2023, respectively. However, Foreign Direct Investment (FDI) remained subdued, with inflows of US$0.6 billion during the same period, reflecting 51.6 percent growth year-on-year.

Improved investor sentiment was also reflected in Nigeria's capital market. The Nigerian Exchange (NGX) recorded a 37.7 percent growth in 2024, closing the year with a market capitalisation of ₦62.8 trillion, driven by short-term trading and enhanced confidence in the economy.

Figure 12: Trend of Nigeria's External Reserves – End Period Value (US$ Billion)



Data Source: CBN

PART B

Stabilisation in Transition: Rethinking Reform Strategies for 2025 and Beyond

Introduction

This segment presents an in-depth analysis of Nigeria's economic stabilisation efforts in 2024, offering a comprehensive analysis of the challenges faced, the successes achieved, and strategic adjustments required for stability in 2025 and beyond. Organised into three sections, this part of the NESG Macroeconomic Outlook Report 2025 examines the foundational elements of economic stabilisation, evaluates the progress of current reforms, and proposes forward-looking strategies to address existing macroeconomic imbalances.

Section A: Rethinking Nigeria's Stabilisation Journey - Context Setting
This section lays the groundwork for rethinking Nigeria's economic stabilisation approach, focusing on the strategic pathways essential for achieving and sustaining stability in 2025. It identifies key reforms and presents a strategic roadmap aimed at fostering resilience and inclusive economic growth. Special emphasis is placed on the need to develop a sustainable economic framework that balances immediate policy priorities with long-term growth objectives, ensuring the economy is better positioned to withstand internal and external shocks.

Section B: Review of Current Economic Stabilisation Reforms
An analytical review of the outcomes of the stabilisation reforms implemented in 2024 is presented in this section, assessing their alignment with the Nigerian Economic Summit Group's (NESG) 2024 macroeconomic projections. It provides a data-driven evaluation of reform performance, identifying successes, policy gaps, and implementation challenges that hindered progress. Key indicators, such as inflation, real GDP growth, and others, are critically examined. Drawing from these insights, the analysis highlights lessons learnt from 2024 and underscores the importance of coordinated and precise policy actions to ensure more effective reform outcomes in the future.

Section C: Optimal Pathway to Nigeria's Economic Stabilisation in 2025
Building on the insights from Sections A and B, Section C outlines a set of actionable strategies to advance Nigeria's economic stabilisation agenda in 2025. The section emphasises the urgency of addressing macroeconomic imbalances, warning of the adverse consequences of delayed reforms for households, businesses, and the government. Reform priorities for 2025 include:

- **Controlling Inflation:** Implementing targeted interventions to stabilise prices and reduce cost-of-living pressures.
- **Boosting Foreign Exchange Liquidity and Stabilising the FX Rate:** Focusing on policies to boost forex availability, address exchange rate volatility, and rebuild market confidence.
- **Improving Fiscal Performance and Reducing Debt Vulnerabilities:** Implementing strategies to boost revenue generation, enhance the efficiency of public spending, and ensure fiscal discipline. In addition, measures to reduce debt vulnerabilities, including utilising non-debt financing methods (e.g., Public-Private Partnerships, PPP), will contribute to achieving macroeconomic stability.

By addressing these critical areas, Section C provides a roadmap for achieving a more stable, resilient, and inclusive Nigerian economy in 2025, laying a solid foundation for sustained economic growth and improved livelihoods.

Section A:
Rethinking Nigeria's Stabilisation Journey - Context Setting

In 2024, Nigeria embarked on a bold and ambitious reform agenda aimed at addressing entrenched structural challenges and unlocking the potential for sustainable economic growth. Despite initial enthusiasm and some progress, the nation now finds itself at a critical crossroads. To fully harness the benefits of these reforms, Nigeria requires a strategic recalibration of its approach and decisive actions to overcome emerging challenges. The need for economic transformation has been driven by persistent economic stagnation and an escalating cost-of-living crisis.

The Economic Transformation Roadmap, as outlined in the NESG Macroeconomic Outlook for 2024, laid out an ambitious blueprint structured across three progressive phases: Stabilisation, Consolidation, and Acceleration. While the initial stabilisation phase yielded some macroeconomic gains, the transition to the consolidation phase has been fraught with challenges. Stabilisation, rightly identified as the foundation for sustainable and inclusive growth, remains precarious. Despite substantial reform efforts, tangible gains have been limited, and the envisioned transformation remains elusive.

The current state of critical economic indicators reveals deep-seated challenges in policy execution, stakeholder engagement, and institutional capacity to efficiently and effectively design and implement robust reform programmes without distortions. As illustrated in the Adjusted Economic Transformation Roadmap, Nigeria remains entrenched at a pivotal inflection point, unable to sustain the momentum required to transition to the consolidation phase. This state of economic inertia reflects the difficulty of reversing decades of structural deficiencies and the absence of mechanisms to translate reform efforts into measurable socio-economic improvements.

Persistent Challenges Highlighted by Key Economic Indicators

1. Inflation: Persistently high at 34.8 percent as of December 2024, far exceeding the CBN's target of 21 percent, continues to erode purchasing power and deepen economic vulnerabilities.

2. Currency Depreciation: Sustained depreciation of the Naira has introduced significant volatility and uncertainty, undermining both business and consumer confidence.

3. GDP Growth: Currently at a modest 3.2 percent for 2024 (Q1-Q3), below the sub-Saharan Africa average, insufficient to meaningfully address unemployment and poverty levels.

4. Welfare and Living Standards: Rising inflation, slow-paced growth, and welfare erosion have left millions in economic distress, exacerbating socio-economic inequalities.

5. Debt and Fiscal Pressures: Unsustainable debt servicing obligations continue to consume a disproportionate share of public revenues, severely limiting fiscal space for development initiatives.

Refocusing on Economic Stabilisation in 2025

In 2025, achieving Economic Stabilisation [6] will once again take centre stage in government priorities. This renewed focus is driven by growing public disappointment in short-term economic performance and an urgent need to regain growth momentum. A stronger economic trajectory is critical for bolstering private sector participation, safeguarding living standards, and mitigating the impact of rising economic uncertainty. However, achieving robust growth presents a formidable challenge that necessitates a rethink of current and prospective reform strategies.

Learning from the reform mistakes of 2024 and refining even successful policies will be pivotal in 2025. However, "learning by doing" in isolation may not suffice. Drawing lessons from international best practices and adapting them to Nigeria's unique socio-economic context will be equally, if not more, important. Enhancing economic performance and strengthening the macroeconomic environment will be critical to revitalising the economy and ensuring that current and prospective reforms achieve their intended outcomes.

Key Lessons to Shape Future Reform Strategies

The reform outcomes of 2024 offer critical insights that must inform how the government approaches future initiatives:

1. **Reforms and growth must be complementary:** Short-term stabilisation efforts and long-term growth strategies need not conflict. When well-aligned, they can reinforce each other.

2. **Coordinated and consistent reform programmes:** Evidence demonstrates that coherent and internally consistent reform policies are essential for achieving better outcomes.

3. **Public support is crucial:** Economic reforms, especially structural adjustments, require broad public buy-in to ensure sustainability and mitigate resistance.

4. **Reforms must address equity concerns:** High unemployment, a strained business environment, and income inequality can undermine reform efforts. Policies must be designed to minimise adverse effects on the most vulnerable populations.

5. **Timeliness is critical:** Delays in implementing reforms exacerbate economic uncertainty, deterring private sector investment and prolonging recovery.

6. **Reforms must be inclusive:** While reforms may not automatically benefit the poor, they can be designed to ensure equity and minimise unintended negative impacts.

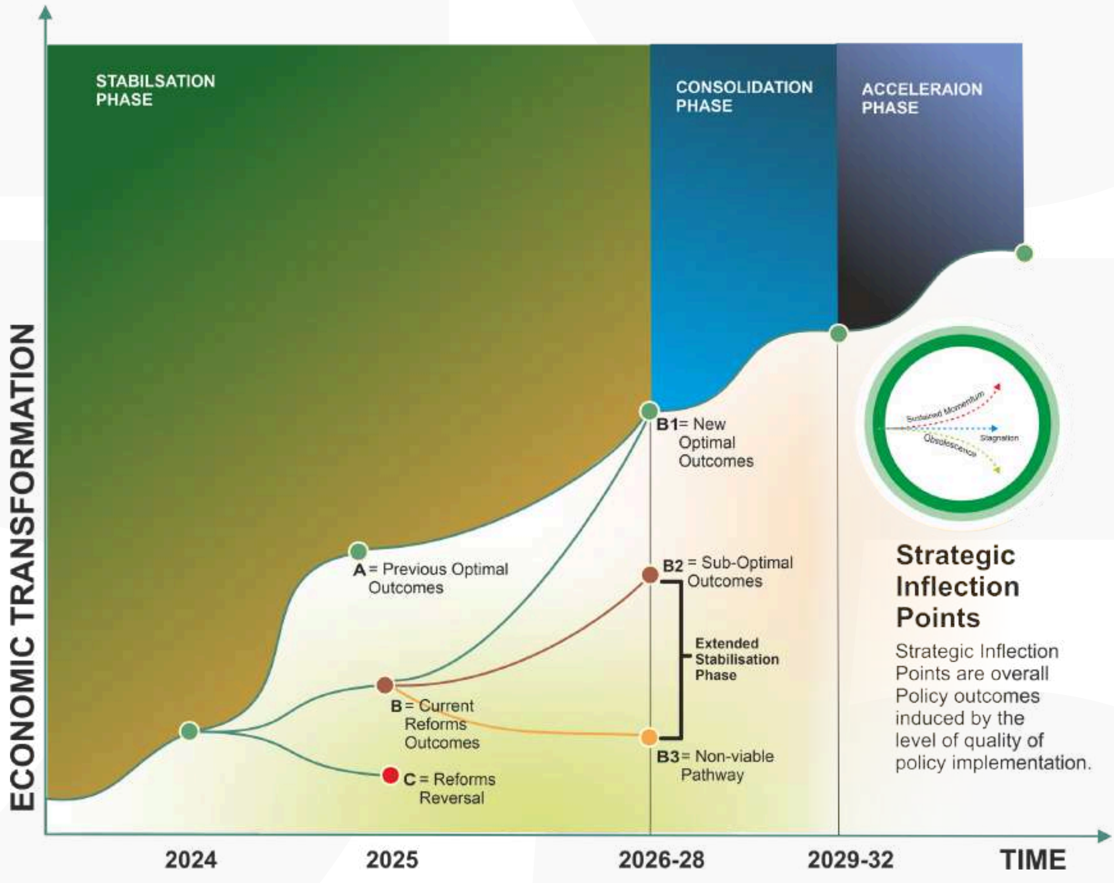
[6] Economic Stabilisation in this sense entails (i) high GDP growth rate (ii) moderate level of inflation (iii) improved fiscal performance, (iv) high private investments, and (v) stable regulatory environment.

Adjusted Economic Transformation Roadmap

True economic transformation in Nigeria requires more than well-crafted plans; it demands a clearly articulated and consistently applied economic philosophy. The urgency of achieving economic stabilisation in 2025 is not merely aspirational; it is imperative for unlocking the nation's vast potential and securing a prosperous future for all citizens.

As illustrated in the Adjusted Economic Transformation Roadmap (see Figure 13), Nigeria currently finds itself at a critical inflection point (Point B), struggling to sustain the momentum needed to transition towards a phase of sustained economic growth. This economic inertia reflects the challenges of overcoming decades of structural deficiencies and the lack of effective mechanisms to translate reform efforts into tangible socio-economic improvements for the Nigerian people.

Figure 13: Economic Transformation Roadmap for Nigeria



From an impact perspective, the success of the stabilisation phase will significantly impact the trajectory of Nigeria's economic transformation journey. Achieving stabilisation goals will deliver immediate and short-term benefits. At the same time, sub-optimal performance will lead to significant development delays and poor economic outcomes and hinder the transition to subsequent phases of the roadmap (as illustrated with points B1 and B3 in Figure 13).

Pathways to Nigeria's Economic Stabilisation: A Three-Pronged Approach

The roadmap identifies three potential outcomes based on the quality of policy implementation and the level of private-sector engagement:

- **Pathway 1 (B to B1):** Optimal Pathway: This ideal pathway envisions a comprehensive overhaul, resulting in a transition to the Consolidation Phase of the Economic Transformation Roadmap in one year:
  - Attracting investments in growth-enhancing sectors
  - An enhanced policy environment characterised by improved regulatory frameworks and institutional efficiency.
  - Sustained high growth driven by strategic investments in infrastructure and innovation.
- **Pathway 2 (B to B2):** Sub-Optimal Pathway: This pathway reflects a continuation of current trends with limited progress, characterised by:
  - Persistent constraints on the drivers of economic growth.
  - Ongoing infrastructure deficits.
  - Reversal of progress in industrialisation and economic expansion.
  - Extension of the Stabilisation Phase beyond one fiscal year.
- **Pathway 3 (B to B3):** Non-viable Pathway: This worst-case scenario depicts a decline in key economic indicators, with Nigeria burdened by persistent challenges that hinder growth and exacerbate economic deterioration. Following this pathway would extend the period for the Stabilisation Phase beyond the horizon of a short-term plan.

Section B:
Review of Current Economic Stabilisation Reforms

Nigeria's decision to implement bold macroeconomic reforms in mid-2023 marked a pivotal step toward addressing the nation's entrenched macroeconomic challenges as well as driving inclusive and sustainable growth. The reform agenda began with the removal of subsidies on petroleum and electricity, followed by the unification of the exchange rate and the floatation of the naira. Additionally, the government initiated tax administration measures such as the implementation of withholding VAT at source and the introduction of digital tax collection aimed at bolstering revenue generation, averting a looming fiscal crisis, and restoring macroeconomic stability.

These market-oriented reforms have undeniably delivered measurable fiscal and external sector gains, including:

- Significant improvement in government revenues, with notable increases in both oil and non-oil revenue inflows.
- The current account balance recorded its strongest surplus since 2014, reflecting improved external sector dynamics.
- An impressive rebound in foreign reserves, which now exceed US$40 billion, provides a stronger buffer against external shocks.
- The elimination of the parallel market premium has fostered greater transparency and reduced distortions in the foreign exchange market.

The gains from these reforms represent commendable progress, highlighting the immediate potential of macroeconomic stabilisation efforts. However, these achievements fall short of meeting the broader stabilisation objectives outlined in the NESG 2024 Macroeconomic Outlook—namely, fostering high economic growth, reducing inflation, stabilising the exchange rate, alleviating fiscal pressures, creating new growth drivers, and promoting fair competition.

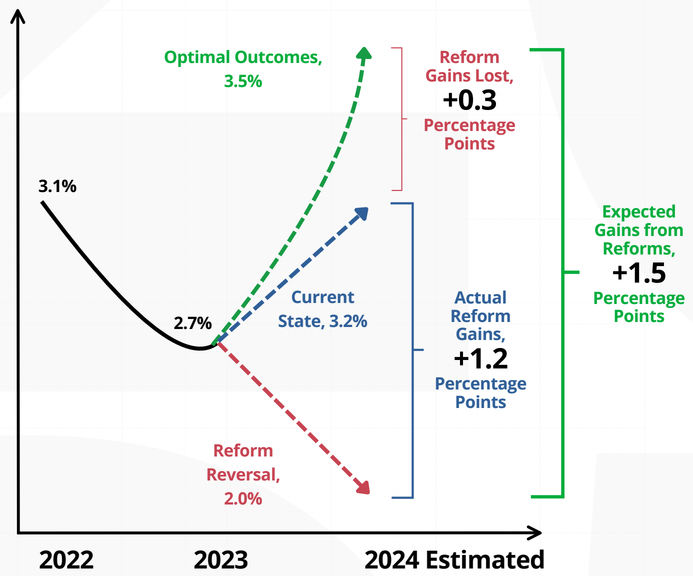
The implementation of the recommended stabilisation measures has faced significant challenges, compounded by emerging economic and socio-economic headwinds. These factors have resulted in sub-optimal outcomes and, in some instances, net-negative effects, thereby extending the stabilisation phase of the country's economic transformation journey. For example, the Nigerian economy forfeited the following potential gains due to delays in implementation reforms.

- The Nigerian economy missed the opportunity to boost its growth performance by about 0.3 percentage points in 2024, due to reform implementation delays (see Figure 14A). However, the economy gained about 1.2 percentage points of real GDP growth in the year.
- In real economic terms, this loss is equivalent to about N230.1 billion (0.3 percent of Nigeria's real GDP).

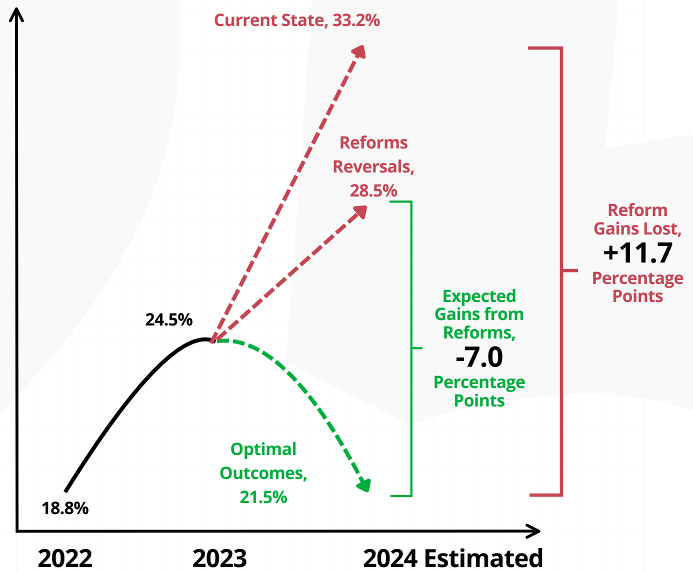
- Escalation of inflationary pressure to a new historic height of an average of 33.2 percent in 2024 (see Figure 14B). This is 4.7 percentage points more than the worst-case projection of 28.5 percent in 2024.
- The weak economic growth and high inflation contributed to the increase in the share of Nigerians living in poverty, estimated at 129 million Nigerians, representing about 56.0 percent of the country's population (World Bank, 2024)[7].

Figure 14: Stabilisation Reforms' Gains & Loss in 2024

A. Quantifying Impacts of Current Reform Programmes - Economic Growth Performance



B. Quantifying Impacts of Current Reform Programmes - Inflation Rate Performance



[7] World Bank. 2024. Nigeria Development Update, October 2024.
Access NESG 2024 Macroeconomic Outlook Report via https://nesgroup.org/researchdocument/2024-macroeconomic-outlook

While Nigeria's current necessary course correction reforms are expected to ensure a drift in the economy's structure and support the emergence of new growth drivers, the country's economic growth remains heavily reliant on a small number of sectors as obtainable in the pre-reform era (see Figure 15A).

As of 2024 (Q1-Q3), three primary sectors—ICT, Finance, and Oil & Gas—continue to dominate the country's GDP, collectively contributing the largest share of economic output. Meanwhile, the remaining 17 sectors struggle to make significant contributions. This over-concentration of growth opportunities in a few sectors reflects deeper systemic issues: low productivity across the broader economy, compounded by existing structural challenges and weak macroeconomic fundamentals (World Bank, 2024[8]; IMF, 2024[9]).

Figure 15A: Nigeria's Economic Structure and Performance in 2023

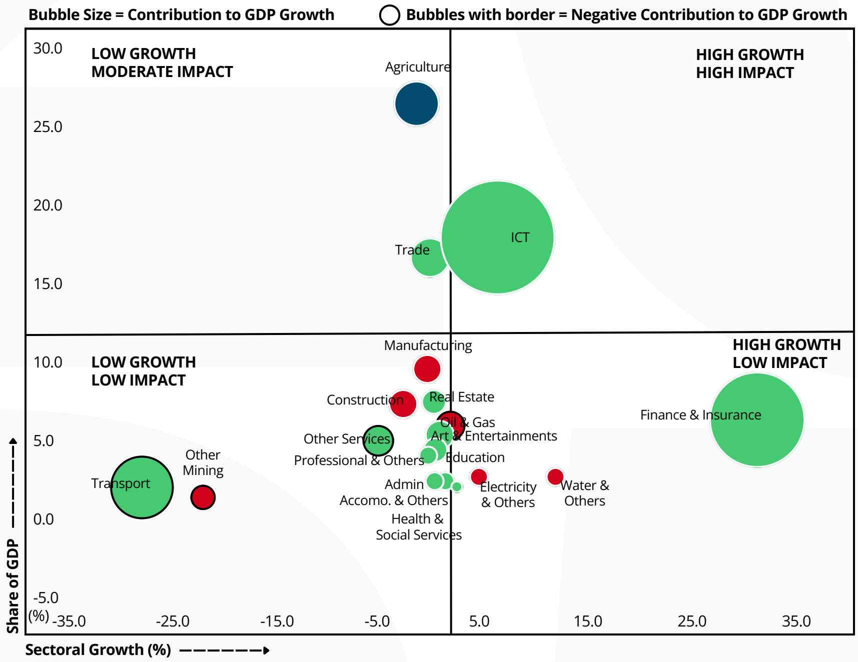
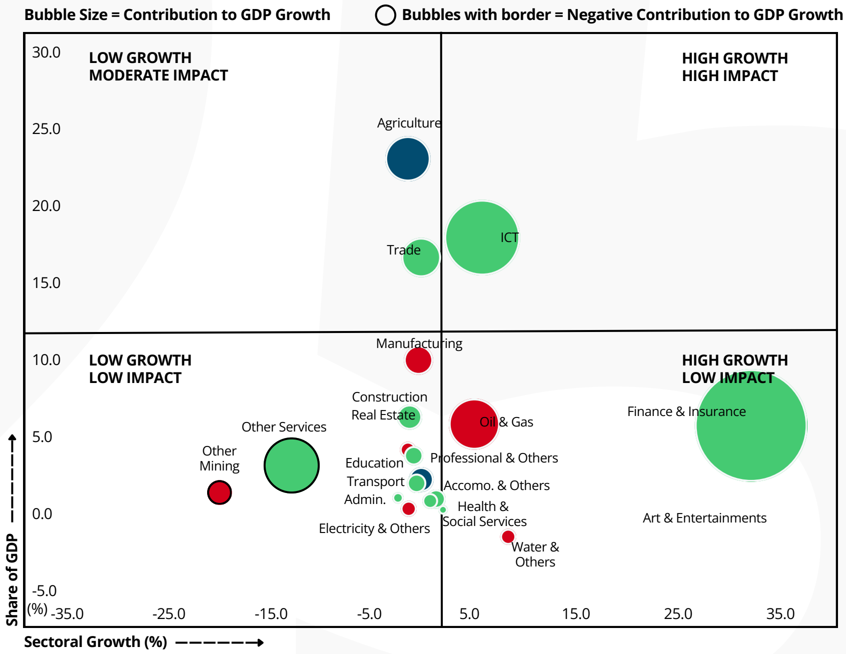


Figure15B: Nigeria's Economic Structure and Performance in 2024 (Q1-Q3)



[8] World Bank (2024). Nigeria Development Update: Staying the course: Progress amid pressing challenges
[9] International Monetary Fund (2024). Sub-Saharan Africa Regional Economic Outlook.

The implications of this constrained growth structure are profound. The absence of diversified growth drivers continues to perpetuate Nigeria's long-standing economic vulnerabilities, including:

1. Limited Economic Diversification: A persistent over-reliance on a few sectors limits inclusive growth and innovation opportunities.

2. Stagnant Job Creation: Insufficient diversification across sectors hampers employment generation, exacerbating poverty and inequality.

3. Weak Economic Resilience: Limited sectoral diversity reduces the economy's ability to absorb external shocks, such as commodity price fluctuations or global recessions.

4. Minimal Value Addition: The lack of growth in value-added and complex products restricts Nigeria's competitive edge in global markets.

Empirical and theoretical economic literature highlights that the outcomes of macroeconomic stabilisation reforms depend significantly on the quality of implementation. Effective reforms require careful sequencing and coordination to mitigate unintended consequences and maximise their impact (see Rodrik, 2006[10]; Hausmann et al., 2008[11]).

The analysis of the 2024 reform implementation strategy reveals critical gaps. These gaps underscore the need for more comprehensive planning, including enhanced coordination among government agencies, clearer prioritisation of sectoral interventions, and robust stakeholder engagement. Lessons from global case studies—such as Malaysia's diversification strategies or Rwanda's reform sequencing—offer valuable insights for refining Nigeria's approach.

In conclusion, while Nigeria's 2024 reforms are bold and necessary, their success will hinge on strategic implementation. Addressing these gaps is crucial to fostering sustainable economic growth, reducing poverty, and improving the economy's resilience.

[10] Rodrik, D. (2006). Understanding Economic Growth Strategies. Journal of Economic Perspectives, 20(2), 47-68.
[11] Hausmann, R., Hwang, J., & Rodrik, D. (2008). What You Export Matters. Journal of Economic Growth, 12(1), 1-25.

BOX 1:
Missteps in the stabilisation policies taken in 2024

In the last year and a half, the government has implemented proactive initiatives and policies, including petrol subsidy removal, exchange rate harmonisation and an increase in electricity tariff. Nigeria's 2024 reform efforts have been notably hindered by poor communication, inefficient policy sequencing, weak coordination, and a lack of sufficient buffers to mitigate negative impacts, all of which have undermined the progress of the reforms. Thus, the recent year has been marked by significant activity, filled with few commendations, amid widespread condemnation among citizens because of the detrimental impact of some government initiatives and announcements. The following underlines the policies' missteps to stabilise the economy in 2024.

Lack of clear policy communication: Nigeria has implemented significant economic reforms to stabilise the economy, but the lack of clear communication and consistent policies has hindered progress. For example, the move towards market-reflective fuel prices has met mixed reactions due to the lack of clarity on subsidy reform implementation. In addition, the foreign exchange reforms faced challenges due to unclear communication at the start, which created confusion and undermined confidence in their execution.

Inefficient reform sequencing: This resulted in significant trade-offs, particularly higher cost of living and increased poverty for households. If the reforms were better sequenced, prioritising foundational elements like social safety nets and strategic FX management, the negative impacts would have been less severe. An effective reform sequencing would have facilitated smoother transitions, minimised harm to households, and created a more conducive environment for sustainable reforms.

Lack of coordination among MDAs: The fragmented coordination approach among MDAs has led to overlapping responsibilities, delays, and inefficiencies, hindering the successful implementation of policies. Without a unified reform strategy, their efforts often conflict, slowing progress and complicating reforms. Better coordination among MDAs is crucial for ensuring reforms are successfully implemented.

Limited buffer for the vulnerable: The reforms implemented were devoid of adequate strategies and cushion for minimising costs on households and Nano, Micro, Small and Medium Enterprises (NMSMEs). This was highlighted by the elevated poverty rate, with more than half of the country's population now living in poverty. Also, several NMSMEs have shut down while some multinationals exited the Nigerian market to operate from neighbouring African countries, which have relatively stable costs of doing business.

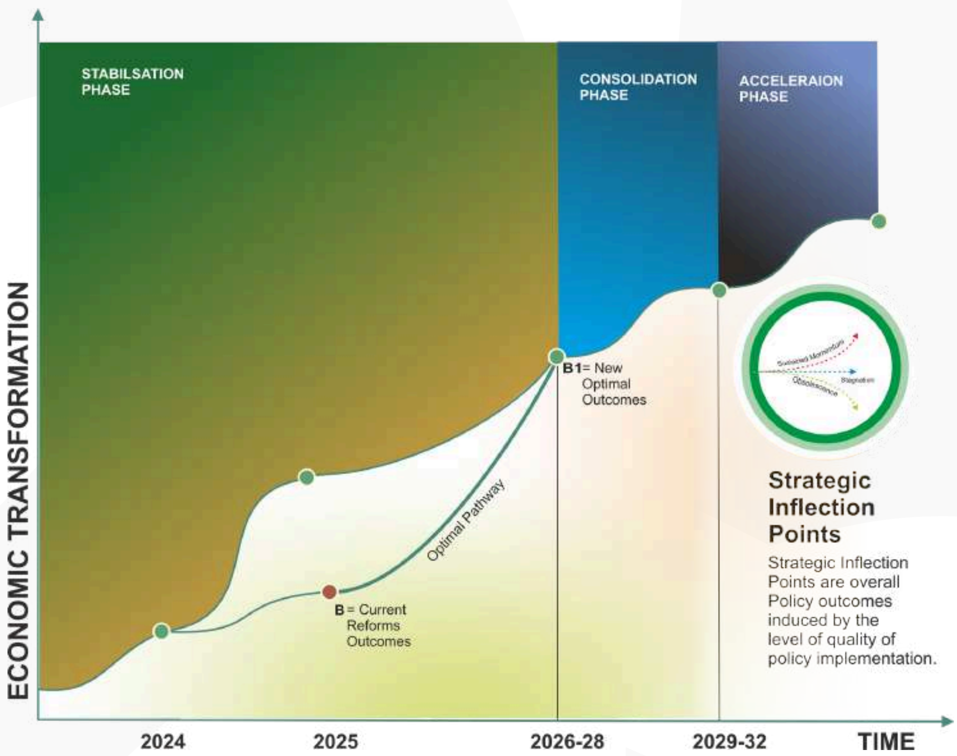
Section C:
Optimal Pathway to Nigeria's Economic Stabilisation in 2025

Achieving macroeconomic stability is a pivotal goal for Nigeria as the country grapples with structural imbalances and economic vulnerabilities. Transitioning to the Consolidation Phase demands the deliberate implementation of well-designed macroeconomic stabilisation policies underpinned by strategic pillars. These policies are not merely reactive measures for addressing immediate economic challenges; they serve as the cornerstone for fostering inclusive and sustainable long-term growth.

While the general principles of stabilisation are well-documented, their success hinges on careful alignment with Nigeria's unique macroeconomic realities. As illustrated in Figure 16, the augmented roadmap of Nigeria's Economic Transformation Journey identifies the critical role of stabilisation policies in facilitating a smooth transition through the Consolidation Phase. The outcomes of these policies will significantly influence the speed and efficiency of this progression.

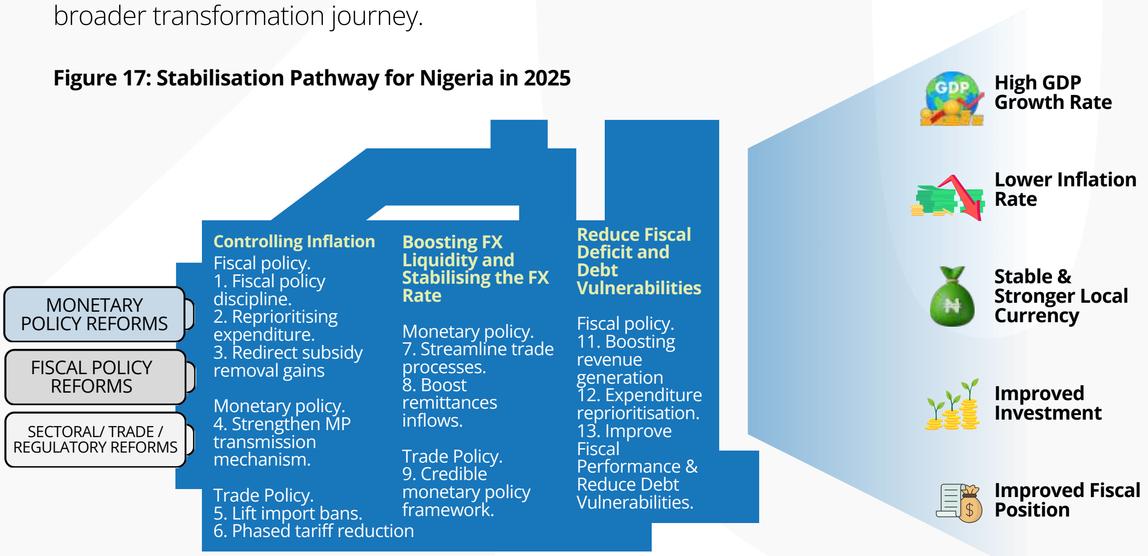
It is evident that Nigeria's pathway through this economic transformation demands strategic planning and rigorous policy implementation. On the one hand, substantial investments and unwavering commitment from the private sector are crucial for fostering equitable and sustained development (Ogbu, 2012; Adenikiju & Olofin, 2000). On the other hand, sub-optimal and non-viable reform outcomes could delay progress through the Stabilisation Phase, prolonging economic vulnerabilities.

Figure 16: Optimal Pathway for Nigeria's Stabilisation in 2025



The ideal pathway—transitioning from point B at the start of 2025 to B1 at the beginning of 2026—provides a comprehensive framework for achieving stabilisation (see Figure 16). It identifies key adjustments required in the current reform agenda and envisions potential outcomes stemming from effective policy execution. Adhering to this pathway is expected to yield substantial economic impacts in both the immediate and short term (see Figure 17). By addressing macroeconomic instability, this approach establishes the foundational conditions necessary for economic growth, which is the first critical milestone in Nigeria's broader transformation journey.

Figure 17: Stabilisation Pathway for Nigeria in 2025



The interdependence of these policies suggests that progress on one front—such as achieving fiscal consolidation or trade policy measures —will likely drive improvements in others, including inflation control and exchange rate stabilisation. However, achieving these objectives will require an adaptable, phased approach with a clear short-to-medium-term policy framework to mitigate risks and build economic resilience.

The proposed Ideal macroeconomic stabilisation path assumes the following outcomes:
1. Annual average real GDP growth of above 5 percent in 2025
2. A stable exchange rate and stronger local currency
3. Reduced inflation
4. Sustainable fiscal policies, pushing fiscal deficit below 3 percent of GDP
5. Robust external sector balances, particularly the current account balance.

The success of this pathway depends on the implementation fidelity of suggested policies and the achievement of stabilisation goals. A well-executed strategy will ease Nigeria's transition to subsequent phases of its economic transformation, ensuring a more resilient and diversified economy.

Conversely, alternative pathways identified in the roadmap (Figure 13) may yield sub-optimal outcomes. While these pathways address certain growth conditions, they fail to tackle the root causes of Nigeria's economic challenges comprehensively. This section of the report presents a detailed analysis of each pathway, offering actionable policy and economic strategies for government consideration.

In conclusion, Nigeria's stabilisation journey is a defining phase of its economic transformation. Strategic execution, private-sector collaboration, and unwavering commitment to reform will determine how quickly and effectively the country navigates this critical period, setting the stage for sustained growth and prosperity.

BOX 2:
Potential Consequences of Delayed Macroeconomic Stabilisation Phase

Nigeria is at a critical point in its economic growth, where delays in achieving macroeconomic stabilisation could hinder long-term sustainable and inclusive growth. Continued deviation from the ideal path may worsen stabilisation challenges, causing prolonged disruptions with significant consequences for households, businesses, and government operations.

Implications for households

1. Lower purchasing power and increase in cost of living: Delays in stabilisation risk prolonged double-digit inflation, eroding household purchasing power and raising the cost of living, making essentials like food, healthcare, and education less affordable.

2. Job losses and disruption in livelihoods: High inflation drives up prices, reducing consumer spending and aggregate demand. This decline pressures businesses, leading to strategies like wage cuts or layoffs to manage costs, which in turn increase unemployment and disrupt livelihoods.

3. Increase in poverty and widespread inequality: Sluggish growth and high inflation will likely push more households into poverty, especially wage-dependent ones, widening inequality and intensifying hardship for the most vulnerable.

Implications for businesses

1. High inflation and currency depreciation will increase business costs, reducing profitability. Nigeria's modest economic growth is driven by rising operational costs from inflation, a weakening naira, and structural challenges. Inflation increases input costs, while naira depreciation raises import expenses. In addition, high interest rates further increase borrowing costs, squeezing profits and limiting businesses' growth, competitiveness, and export potential.

2. Heightened macroeconomic uncertainty will adversely impact business decisions. Imbalances in key macroeconomic indicators create uncertainty, lowering economic growth and complicating business decisions on demand forecasting and pricing. This uncertainty raises the cost of capital, limits investment financing, and increases borrowing costs due to heightened perceived risk by lenders.

Implications for government

1. Rising poverty and inequality will undermine inclusive growth. Delayed macroeconomic stabilisation will worsen poverty and inequality, particularly for vulnerable groups. Sluggish growth, high inflation, and fiscal imbalances will disproportionately impact low-income households, leading to social instability and diminished trust in government, undermining the goal of achieving an inclusive and sustainable growth.

2. Delayed macroeconomic stabilisation may lead to social and political risks. Prolonged economic stagnation and rising inflation would increase hardship, poverty, and inequality, potentially leading to social unrest and protests. In an environment of high governance costs and inefficient public finance, such unrest could trigger political instability, further hindering efforts to achieve macroeconomic stability.

3. Prolonged stagnation may lower ratings and weaken investor confidence. Persistent sluggish growth, high inflation, and weak fiscal and current account balances will increase economic uncertainty and risk. This undermines trust in government policies, lowers credit ratings, and erodes investor confidence both domestically and internationally.

Strategies for Achieving Economic Stabilisation in 2025

Achieving monetary and fiscal stability is crucial in the Stabilisation Phase to foster a stable price environment and rectify monetary and fiscal imbalances that could obstruct broader economic stabilisation goals. This stability will require targeted measures aimed at reducing inflation, boosting foreign exchange liquidity, and improving fiscal performance.

Implementing these measures will improve macroeconomic stability, creating a conducive environment for domestic and foreign investments to thrive. Low and stable inflation reduces uncertainties, making it easier for businesses to plan and expand operations, while improved foreign exchange liquidity facilitates access to capital and supports trade activities. Improved fiscal performance will promote increased public investment in infrastructure and social programs, stimulating economic activity, creating jobs and alleviating poverty. Together, these efforts in the Stabilisation Phase lay the groundwork for sustainable macroeconomic reforms and mitigate risks of prolonged volatility.

A. Controlling Inflation

Achieving a stable and moderate level of inflation requires a comprehensive framework that incorporates fiscal, trade and monetary policy strategies. These strategies, along with strong institutions, will work in tandem to address structural and macroeconomic vulnerabilities, ensuring a stable price environment necessary for inclusive and sustainable economic growth.

1. Fiscal policy.
Strengthening fiscal discipline. This measure entails achieving revenue-based fiscal consolidation as part of broader measures aimed at controlling inflation. By increasing government revenue through a more progressive tax system, expanding the tax base and collection efficiency, and strengthening institutions to improve compliance with fiscal regulations, the government can reduce inflationary pressures caused by fiscal imbalances and minimise the reliance on monetary financing to cover the fiscal deficit.

Reprioritising expenditure. An effective measure to control inflation involves cutting down on wasteful spending and rechanneling resources to critical sectors driving inflation, such as agriculture, energy, and transportation. By optimising spending in these sectors, the government can address key supply-side challenges, reduce production costs, and enhance output. For instance, rechannelling investments to agriculture can boost food production and stabilise prices, while targeted spending in energy and transportation can lower operational costs and improve efficiency across the economy. These actions reduce structural inefficiencies and support price stability without placing undue reliance on monetary policy measures, such as interest rate hikes, which can have broader economic trade-offs. This balanced approach helps to sustainably manage inflation while fostering economic growth and maintaining stability.

Redirecting gains from subsidy removal to social programmes. A key fiscal measure to controlling inflation is redirecting gains from subsidy removal into targeted social programs. Redirecting subsidy gains will stabilise household demand, particularly for vulnerable groups, mitigating the potential negative impact of macroeconomic stabilisation measures. This method will both reduce the burden on households faced with higher prices and ensure a more inclusive stabilisation process.

2. Monetary policy.

Strengthen monetary policy transmission mechanism. Improving the transmission mechanism of monetary policy is essential to ensuring price stability amid Nigeria's macroeconomic challenges. A robust monetary transmission framework allows policy measures to effectively influence market dynamics and stabilise prices. Strengthening this framework involves targeted actions such as enhancing central bank communication, maintaining a consistent and transparent policy framework, and improving the predictability of monetary actions. These measures will ensure that inflation control is sustainable and aligned with broader stabilisation goals

3. Trade Policy.

Lift import bans on essential food products. A practical measure to control inflation involves temporarily lifting import bans on essential food products. This will boost market supply, stimulate healthy competition, and alleviate food shortages. Boosting supply through imports can create downward pressure on food prices, benefiting consumers and reducing headline inflation without the need for drastic domestic production adjustments in the short-term. In addition, a temporary relaxation of import ban on food products will reduce inflationary pressures, while ensuring food security and price stability objectives are met.

Phased tariff reduction on essential intermediate goods. For essential intermediate goods, a phased reduction of trade barriers will lower production costs for firms, enabling them to price products more competitively. Removing these barriers will not only reduce inflation but also enhance economic efficiency, resilience, and long-term growth potential.

B. Boosting FX Liquidity and Stabilising the FX Rate

1. Trade Policy.

Streamline trade processes. Streamlining trade processes is a key trade policy strategy for increasing FX supply and reducing distortions in the short to medium term. Strengthening customs automation procedures and export documentation processes eliminates bureaucratic bottlenecks and minimises delays, enabling exporters to access international markets efficiently. Enhancing the efficiency of trade facilitation ensures steady FX inflows from exports, stabilising exchange rates and strengthening foreign exchange reserves.

Boost remittances inflows. Improving remittance inflows through formal channels is an effective strategy to boost FX liquidity. Digitalising remittance transfers via official channels, such as using mobile banking platforms, reducing remittance costs and simplifying transfer procedures, increases accessibility and convenience for the diaspora.

2. Monetary Policy.

Credible monetary policy framework. Maintaining a credible monetary policy framework is fundamental to boosting FX inflows and ensuring exchange rate stability. A consistent and transparent monetary policy builds trust and confidence among investors, reinforcing expectations of stable inflation and exchange rate management.

C. Improve Fiscal Performance and Lower Debt Vulnerabilities

Boosting revenue while protecting vulnerable populations. A comprehensive framework targeted at boosting domestic revenue mobilisation through tax reforms aimed at making tax payment more progressive, expanding the tax base and improving tax collection efficiency will help boost tax revenues, promote inclusive fiscal stability and drive fiscal consolidation. In addition, strengthening fiscal rules would provide a pathway to lowering fiscal deficit in the short-to-medium term. Lower fiscal deficit contributes to fiscal stability by reducing the need for domestic and external financing, thereby mitigating the risk of unsustainable debt levels, especially in periods of high interest rates and foreign exchange depreciation. Revenue-based fiscal consolidation will boost investor confidence and provide governments with greater fiscal space to increase investment in growth-enhancing sectors.

Expenditure reprioritisation. Fiscal policy strategies aimed at optimising government spending to enhance efficiency and efficient allocation of resources are critical to achieving fiscal stability. Reprioritising expenditure by cutting down on unproductive spending, channelling resources to growth-enhancing sectors, and prioritising investments in high-return infrastructure and social programs are critical measures to improve the welfare of the vulnerable population. Expenditure prioritisation contributes to fiscal discipline, reduces budget deficits, and fosters inclusive macroeconomic stability.

Reducing debt vulnerability. This policy measure aims to lower debt vulnerabilities by implementing strategic fiscal policies focused on increasing non-oil revenue and rationalising expenditure to minimise deficit financing. In addition, utilising non-debt financing methods, such as Public-Private Partnerships (PPP) or asset privatisation, will further alleviate the government's debt obligations and foster macroeconomic stabilisation.

PART C

Macroeconomic Projections for Nigeria in 2025 & Beyond

Introduction

This section provides short-term projections for the Nigerian economy, outlining the anticipated outcomes of the optimal economic stabilisation pathway discussed in Part B. These projections are derived using comprehensive and robust forecasting methodologies, factoring in both the costs and benefits of the proposed measures. The analysis assumes that the government will diligently and consistently implement the critical policy recommendations highlighted in Part B of this report. In addition, this section also presents alternative projections based on scenarios of "sub-optimal and non-viable" levels of policy implementation. These scenarios illustrate the potential economic outcomes under conditions of partial or inadequate policy execution and instances where key reforms are abandoned by the government.

Macroeconomic Outlook for 2025

The NESG 2025 Macroeconomic Outlook presents another opportunity for Nigeria to maintain the stabilisation path by implementing robust macroeconomic and business-friendly policies and ensuring proper coverage for vulnerable Nigerians. The Macroeconomic Outlook for 2025 are based on forecasts from a robust macrostructural model estimated using a Structural Vector Autoregressive (SVAR) technique[12].

Rationale for 2025 Macroeconomic Outlook Projections

Nigeria's 2025 stabilisation projections rely on drastic and effective measures to address economic challenges. The assumption upon which the projections are built are highlighted below:

Drivers	Enablers
Domestic Factors - Domestic crude oil production to hit 2 million barrels per day (mbpd) - Higher CAPEX implementation - Robust growth in Oil Refining sub-sector - Reduction in fuel imports. **Global Factors** - Lower global interest rate - Easing of global conflicts - Moderate increase in oil price	- Foreign exchange market liberalisation - Improved forex liquidity - Subsidy reforms in the electricity sector - Countercyclical balancing of monetary and fiscal policies - Improved fiscal position - Improved access to affordable financing for households and businesses.

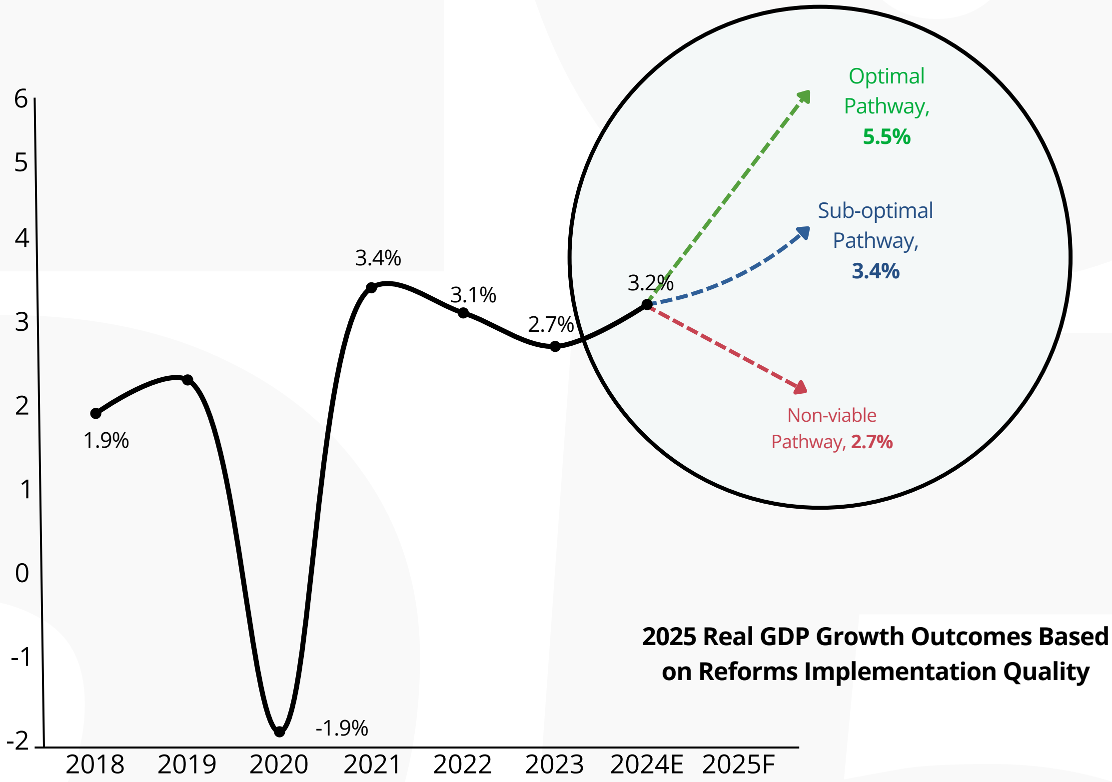
[12] Unlike standard Vector Autoregressive (VAR) models, the SVAR framework applies theoretical restrictions rooted in economic theory to identify structural shocks and disentangle their causal effects (Sims, 1986; Amisano and Giannini, 1997; Kilian, 2011). This methodology accounts for the interdependence of macroeconomic variables, offering a nuanced understanding of the economy's dynamics. Nonetheless, it is particularly effective for forecasting and policy simulations. By clarifying the underlying drivers of economic trends, the SVAR model facilitates robust scenario analyses, enabling policymakers to evaluate the potential impacts of policy choices and external shocks.

Expected Outcomes of Effective Stabilisation Reforms & Efforts

A. GDP Growth Rate in 2025

Real GDP growth is projected to surge to 5.5 percent in 2025 with the implementation of effective stabilisation measures. These efforts aim to alleviate cross-sectoral constraints while addressing sector-specific challenges. Stabilisation reform initiatives are expected to enable broad-based sectoral growth in the short term, departing from sectoral growth experienced in 2024 (Q1-Q3) where only four (4) of the twenty (20) major economic sectors achieved growth rates exceeding 5 percent, while also addressing underlying structural issues.

Figure 18: Forecast for Real GDP Growth in 2025



Key drivers, such as enhanced electricity supply and improved fuel availability—resulting in lower fuel prices—are anticipated to significantly reduce business disruptions, particularly for Nano, Micro, Small and Medium Enterprises (NMSMEs), thereby boosting productivity and overall economic performance.

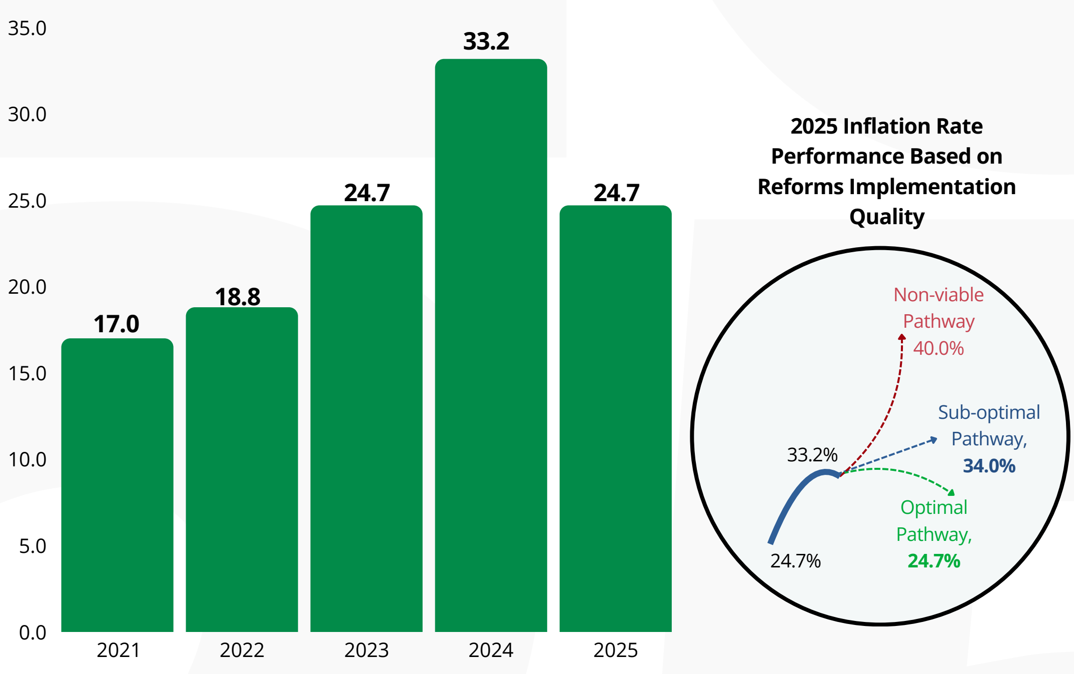
Additionally, improved foreign exchange availability will sustain operations in the manufacturing sector, which depends on imported raw and intermediate inputs. In agriculture, addressing financing, storage, warehousing, and logistics challenges will bolster sectoral performance. The oil and gas sector will remain critical, not just for growth but also as a significant contributor to foreign exchange inflows, external balance resilience, and government revenue. Furthermore, the manufacturing sector is projected to expand due to stabilisation policies that address power supply challenges and reduce input costs.

B. Inflation Rate in 2025

Under the Optimal Stabilisation Pathway, inflation is projected to decline to 24.7 percent, signalling an improvement in the country's macroeconomic stability. The effective coordination of fiscal policies with monetary policy measures will drive this anticipated reduction in the inflation rate. In addition, a relatively stable foreign exchange (forex) market, resulting from improved forex supply and reduced speculative demand, will also play a pivotal role in curbing inflation.

The anticipated enhanced productivity dynamics across key economic sectors, particularly Agriculture, are expected to contribute significantly to the projected ease in inflationary pressure in 2025. Increased agricultural output will improve food supply, address scarcity, and ease food price pressures, which constitute significant driver of inflation in Nigeria. Additionally, improved security in major food-producing regions will ensure better access to farmlands and supply chains, further stabilising food prices.

Figure 19: Inflation Rate Forecast for 2025 (Percent)



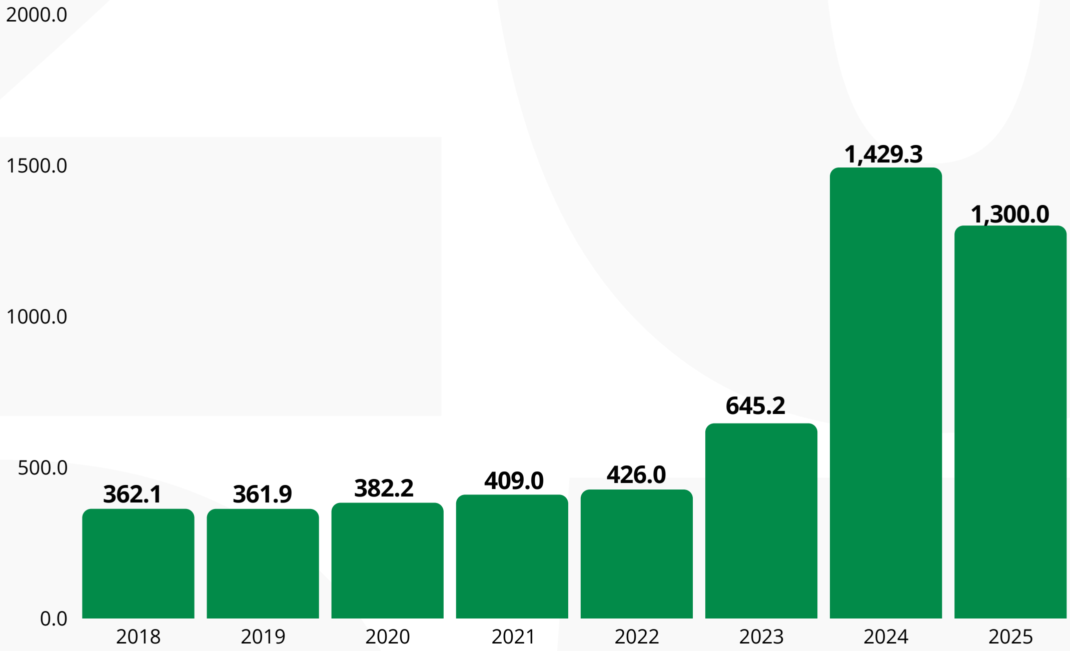
N:B 2024 is estimated, & 2025 is forecasted

Improved energy supply, including reliable electricity and steady fuel availability, is another critical factor in reducing inflation. A more stable energy environment will minimise production disruptions and lower operational costs for businesses, especially in manufacturing and small enterprises. Collectively, these measures will dampen inflationary pressures and create a conducive environment for sustainable economic growth while supporting household purchasing power and business competitiveness.

C. Exchange Rate

The exchange rate is projected to strengthen, averaging ₦1,300/US$1 in 2025 under the ideal stabilisation pathway. This anticipated improvement reflects the combined impact of higher crude oil sales, expanded manufacturing output due to resuscitation of the Oil refining sub-sector, and increased agricultural production, all contributing to enhanced foreign exchange (Forex) earnings. Crude oil, which remains Nigeria's largest export, is expected to benefit from stable global demand and improved local production efficiency, boosting export revenues.

Figure 20: Average Exchange Rate Performance (NGN/US$) in 2025



N:B 2025 is forecasted

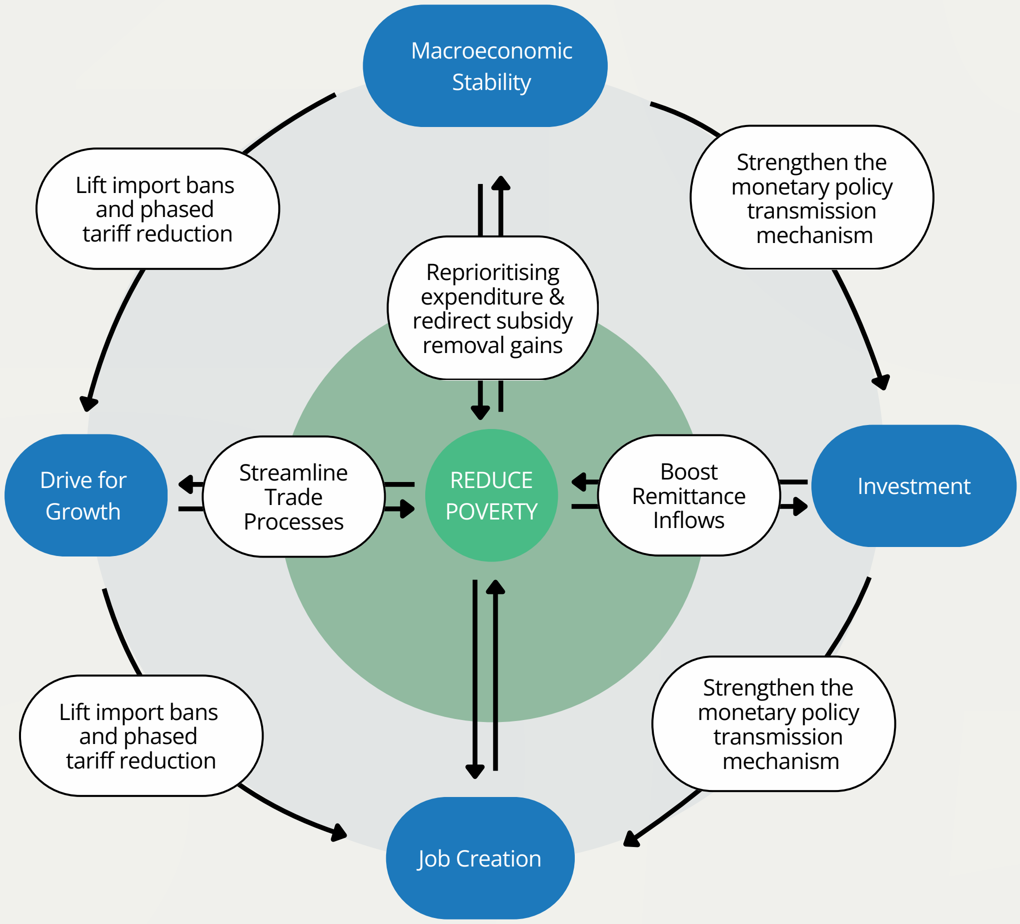
A pivotal factor in reducing Forex demand is the effective operation of the Dangote Refinery, which is expected to decrease Nigeria's reliance on imported refined petroleum products significantly. This shift will conserve foreign reserves, estimated at US$10 billion annually,[13] and increase Forex liquidity for other critical import needs.

[13] https://www.arise.tv/dangote-my-refinery-can-save-nigeria-10bn-in-fx-generate-another-10bn-in-exports/

Short-Term Impact of Stabilisation Reform on Nigeria's Fundamental Macroeconomic Goals in 2025

Concluding the discussion with reform suggestions alone may not sufficiently illustrate how these policies will create an environment conducive to growth, job creation, investment attraction, and poverty reduction. Figure 21 below outlines the interconnections between the NESG's policy recommendations and five key macroeconomic objectives for 2025: macroeconomic stability, economic growth, investment promotion, job creation, and poverty reduction.

Figure 21: Interconnections of Stabilisation Strategies and Core Macroeconomic Goals



Taking a glance at the Expected Short-Term Outcomes

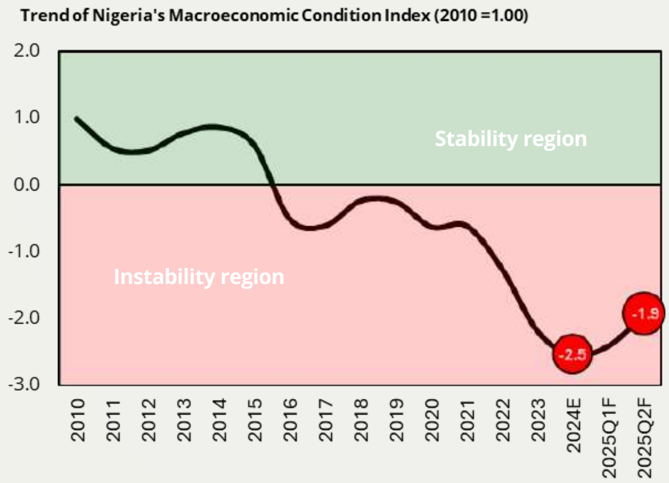
A short-term perspective was applied to assess how Nigeria's macroeconomic conditions are likely to respond to the robust implementation of proposed stabilisation reforms in 2025. The anticipated outcomes suggest notable improvements across key indicators and drivers of the nation's macroeconomic performance during the first half of 2025.

This interlinkage underscores that attaining macroeconomic stability is foundational to achieving these objectives. By fostering a stable economic environment, the proposed policies serve as a catalyst for sustainable development, aligning with the broader economic goals such as macroeconomic stability, investment, drive for growth, job creation, and poverty reduction.

Short-Term Impact of Stabilisation Reform on Nigeria's Fundamental Macroeconomic Goals in 2025

Figure 22: Nigeria's Macroeconomic Condition with Stabilisation Strategies

		2024				2025F	
		Q1	Q2	Q3	Q4	Q1	Q2
Drivers	Real GDP Growth (%)	2.9	3.1	3.4	3.5	4.5	5.0
	Inflation (%)	31.6	33.9	32.7	34.4	32.5	30.5
	Fiscal balance (₦'Billion)	-4179.8	-4260.5	-4448.5	-3205.3	-3000.0	-2500.0
	Exchange rate (US$/NGN)	1410.9	1428.1	1603.2	1622.7	1500.0	1400.0
	Interest rate (%)	27.7	29.1	29.6	30.6	28.5	28.6
Signals	Manu. Growth (%)	1.4	1.2	0.9	1.1	3.4	3.4
	Agric. Growth (%)	0.1	1.4	1.1	2.1	2.2	3.0
	Trade balance (₦'Trillion)	5.2	4.0	5.8	6.7	8.0	10.0
	Capital inflows (US$'Billion)	3.4	2.6	1.2	2.6	3.5	5.0
	Public debts (₦'Trillion)	121.6	134.2	140.6	142.7	150.0	165.0
	Foreign reserves (US$'Billion)	32.2	34.7	39.2	40.9	42.0	43.5



2025 Forecast: NESG Research
Heatmap: NESG Research

Real GDP growth is projected to experience a significant uptick, potentially reaching historical highs, driven by the expansion of economic activities and a broader base of growth-contributing sectors. Inflationary pressures are expected to ease as underlying factors weaken. Enhanced food production, exchange rate stability, reduced fuel costs, and other supportive measures are anticipated to collectively contribute to lower price levels during this period.

Interest rates and credit costs are likely to remain stable, with the Central Bank of Nigeria (CBN) potentially adopting a more accommodative monetary policy stance, including a relaxation of the Monetary Policy Rate (MPR), to complement fiscal stabilisation efforts.

Overall, macroeconomic signals are expected to show considerable improvement. While the pace of deterioration in lagging indicators will slow, momentum in positive indicators is projected to sustain and strengthen further in the year.

Upside and Downside Risks to Nigeria's 2025 Macroeconomic Projections

Forecast indicator	Risk scenario	Risk nature
GDP Growth Outlook	Increased operations at the Dangote and Port Harcourt Refineries could boost the Oil Refining sub-sector and support the Manufacturing sector.	Upside
	The recent drop in oil rig counts signals a possible reduction in domestic crude oil production and a further slowdown in the oil and gas sector in 2025 unless the sector attracts additional investments.	Downside
Inflation Outlook	The recent flooding in Borno is a warning signal to other major food-producing regions to take precautionary measures. Otherwise, a reoccurrence of the incident could disrupt planting and harvest seasons in 2025, thereby reducing crop production and pushing up food prices.	Upside
	The persistent weakness of the domestic currency could translate to rising imported inflation, thereby keeping the headline inflation elevated.	Upside
	The reduction in import duties on staple foods, including maize, wheat, husked brown rice, and cowpeas, could encourage the importation of these items and support domestic production.	Downside
	If passed into law, the new tax reform bill will eliminate the pass-through effect of VAT collection on consumer prices, as over 97 percent of SMEs will be exempted from charging VAT on their sales.	Downside
Policy Outlook – fiscal & monetary positions	Rising expenditure amidst struggling revenues could encourage borrowing to plug the fiscal gap, thereby deteriorating fiscal sustainability.	Downside
	Higher FAAC allocation from VAT accruing to States is expected due to increased appropriation in the new tax reform bill.	Upside
	The CBN is likely to uphold the monetary tightening cycle if rising inflation persists, even though the expectation is that it will maintain the status quo for most of 2025 to assess the effectiveness of past rate hikes.	Upside
External Sector Outlook – trade & investment positions	The operational start of the refurbished Port Harcourt Refinery to support the existing Dangote Refinery is likely to motivate a reduction in mineral fuel imports and improve the trade balance position.	Upside
	The clarity of the CBN's foreign exchange (FX) policy could buoy investor confidence, thereby improving FX liquidity, which would contribute significantly to external reserves accretion in 2025.	Upside
	Foreign investors targeting short-term money market instruments could induce pressure in the FX market, resulting in exchange rate volatility.	Downside

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About the NESG

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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