THE NIGERIAN ECONOMIC SUMMIT GROUP

THE GLOBAL & NIGERIAN ECONOMY IN Q1'2024

May 2024

OUTLINE

Economic Updates Q1'2024

- Global Economy
- Domestic Economy

Economic Outlook for H1'2024

Global Economic Updates

6 Critical Themes in the Global Economy in Q1'2024

1. Economic growth slowed in Q1 2024 due to emerging risks.	2. Global economic activity slowed but remained positive in Q1 2024.
3. No end in sight to the era of high global inflation.	4. Elevated inflation: Insights from Advanced and Emerging Markets.
5. Policy rate cuts and "No change" prevailed globally	6. Aside from energy, commodity price indices slowdown.

1 Global economy growth slowed in Q1 2024 due to emerging risks.

2.7%

Slower Real GDP Growth in Q1 2024 estimated at 2.7% due to the three (3) factors below

FY-2023 - 3.0%

1. Geopolitical tensions

The global economy performance faced multi-faceted disruptions from geopolitical volatility, especially the Israel-Hamas war and shipping disruptions in the Red Sea. These disruptions create trade vulnerabilities and possibly renewed supply shortages and bottlenecks.

2. Real Estate market challenges in Emerging Economies

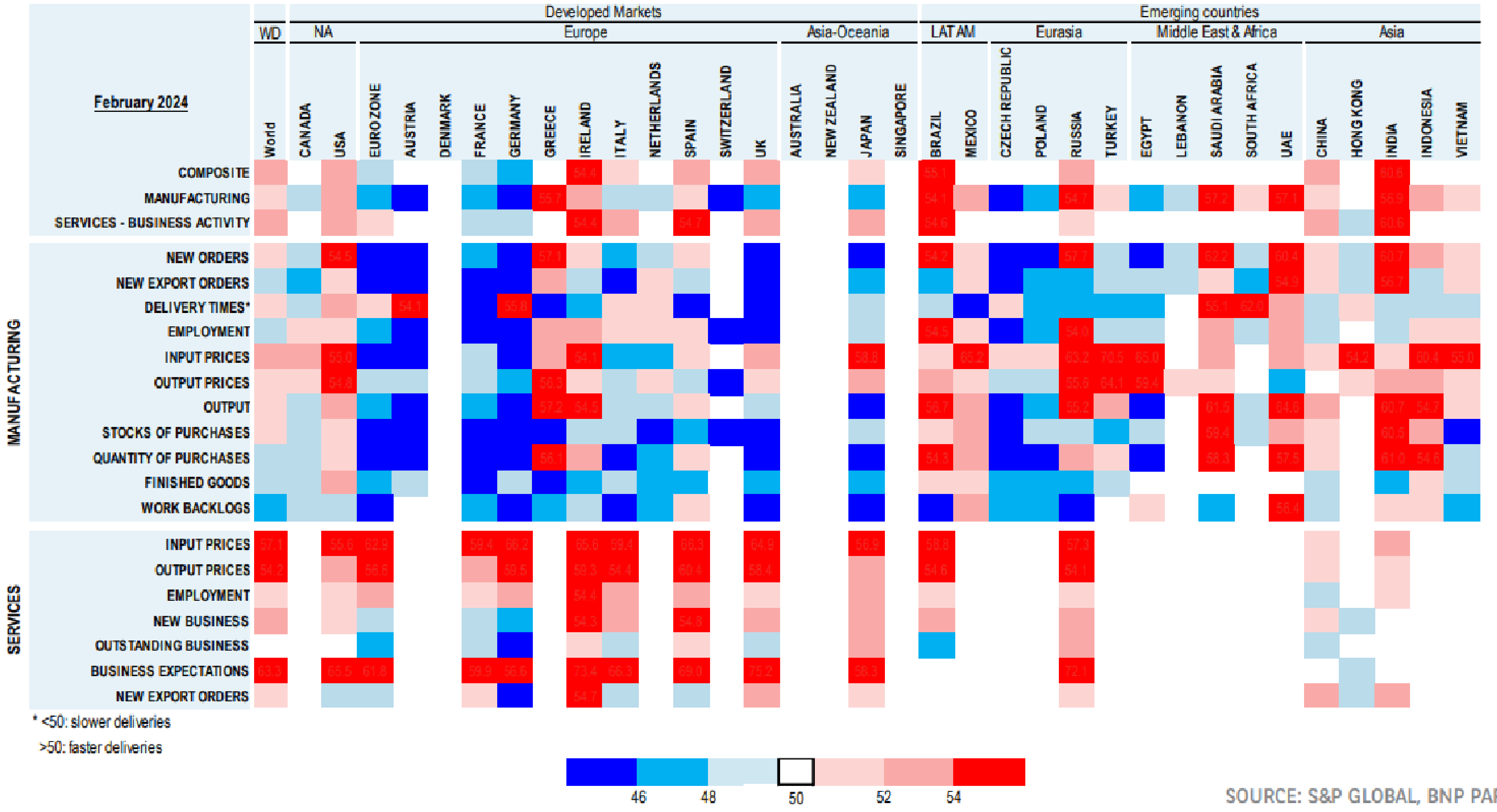
Emerging Markets' real estate, notably in commercial and office sectors, encounters turbulence. Rising remote work and gig economy disrupt construction, heightening default risks. China's building market crash underscores these challenges.

3. High inflationary pressure

Persistently high inflation has resulted in a prolonged period of high interest rates. Thus, making the restrictive monetary policy to further the weakening of global economic growth and slowdowns.

2 Global economic activity showed a slowed yet encouraging improvement in Q1 2024

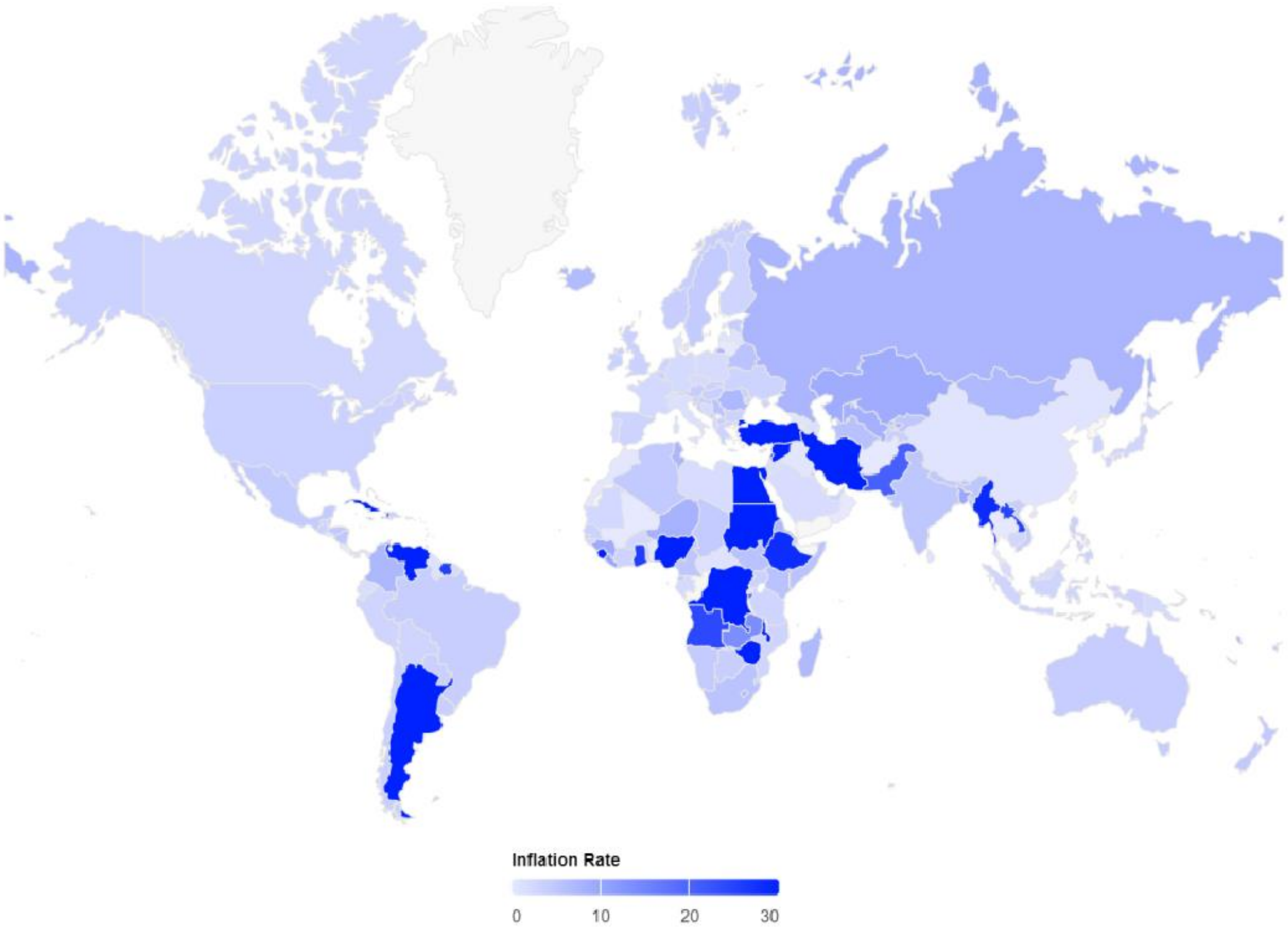
Global Composite PMI of 52.3 in March 2024 from 52.1 in February 2024, signals fast expansion and allay concerns of a global recession



SOURCE: S&P GLOBAL, BNP PARIBAS

3 No end in sight to the era of high global inflation.

Inflationary Rate across the Globe (%, End of Q1'2024)

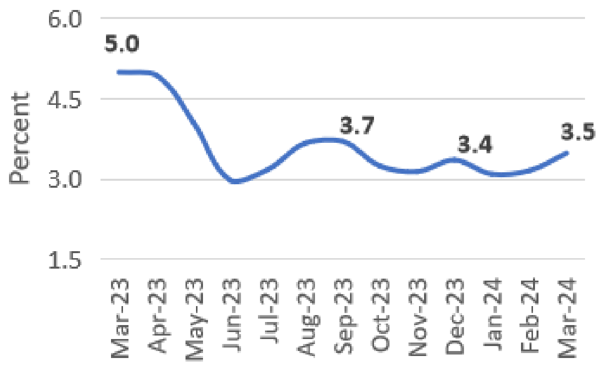


Source: Trading Economics

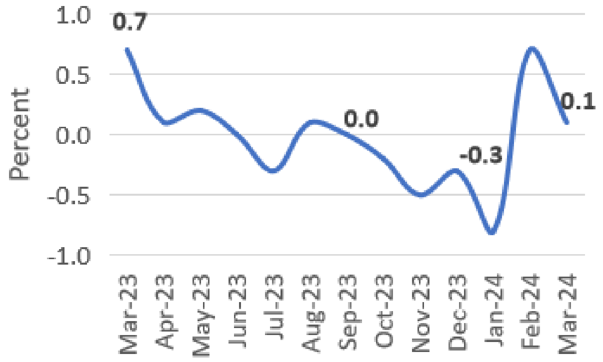
- **Global inflation records hit about 3.1% in March, but there will be further progress in 2024**
- **Advanced Economies:** Inflation has dropped a lot, but progress has slowed.
- **Emerging Markets:** There has been some backsliding, with many countries experiencing rising inflationary trends.

4 Elevated inflation: Insights from Advanced and Emerging Markets.

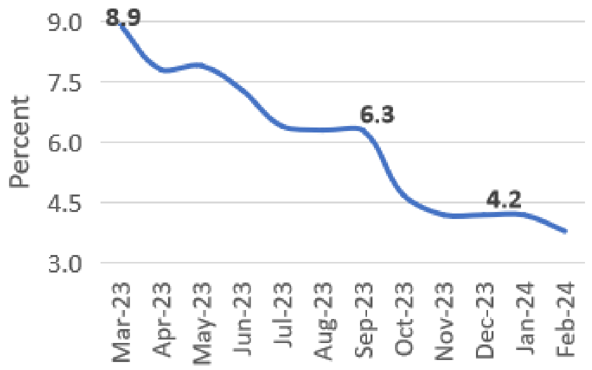
In the first quarter of 2024, U.S. inflationary pressure fluctuated between 3.1% and 3.5%. Persistent price pressures are fueled by tightness in the labour market and wage growth.



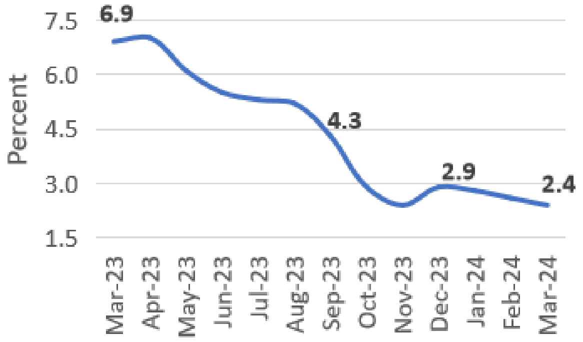
Chinese era of deflation ended in Q1 2024, with inflation rates of 0.7% in February and 0.1% in March 2024. This shift is credited to increased domestic demand and global supply chain disruptions.



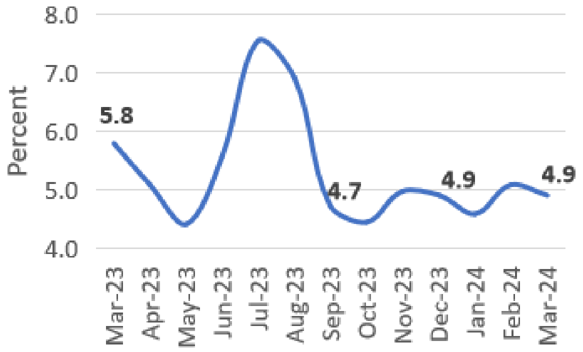
Consumer inflation in the UK softened in Q1'2024 due to delayed impacts of monetary policy tightening and favourable base effects.



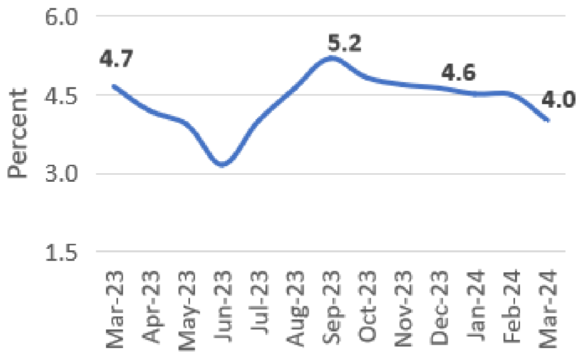
The Eurozone's inflation rate decreased during the period, albeit gradually. This is due to enduring price pressures from the labour market and volatility in energy prices.



Inflationary pressure in India nosedived because of tight monetary policy. Although, the pace of decline was slow occasioned by high energy prices and high food inflation.

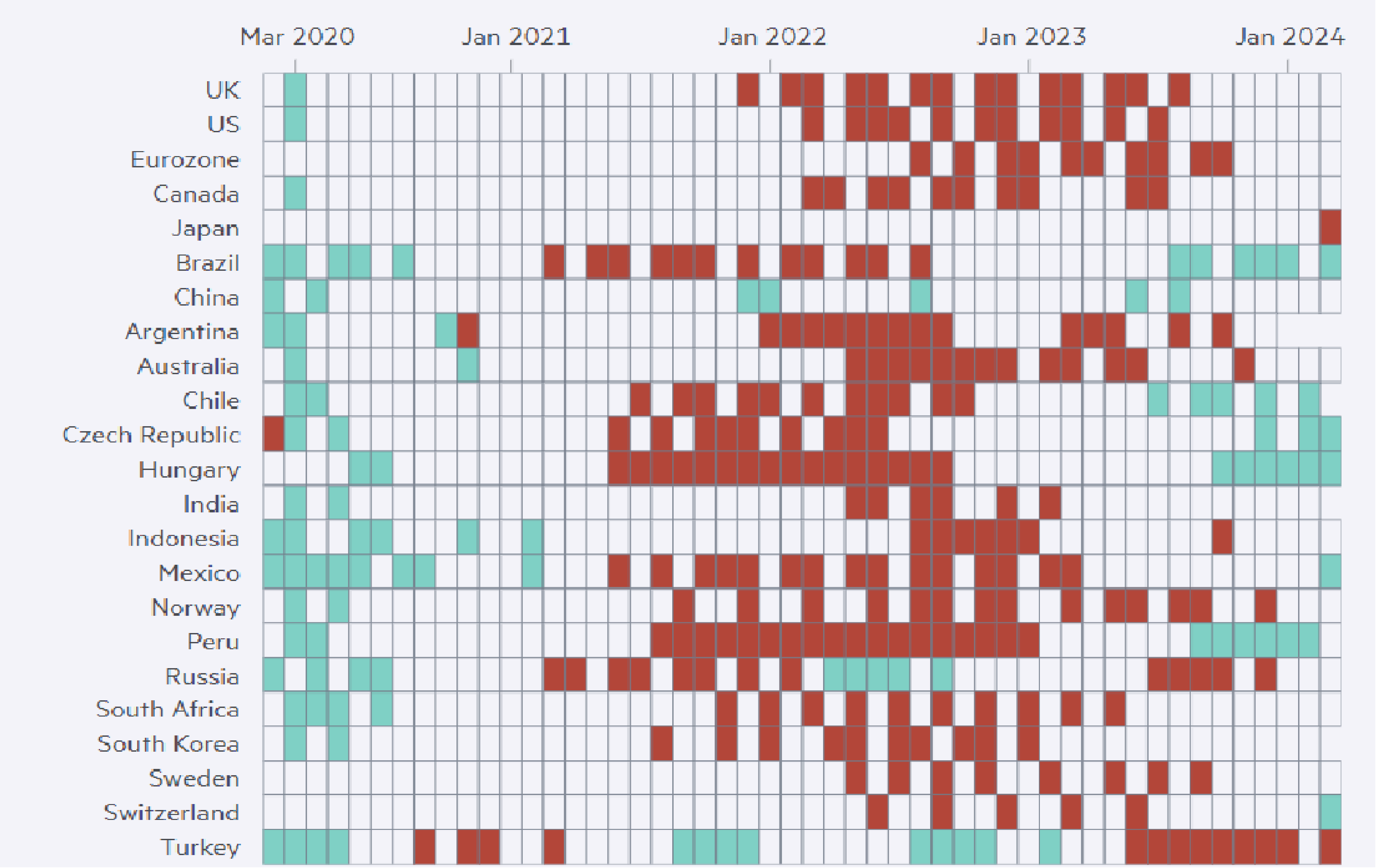


Brazil's Inflationary pressure decreased from 4.6% in December 2023 to 4.0% in March 2024. This easing was supported by higher interest rates and declining commodity prices.



5 Policy rate cuts and “No change” prevailed globally

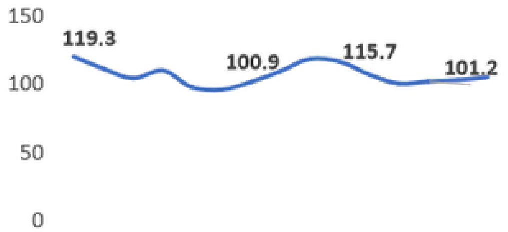
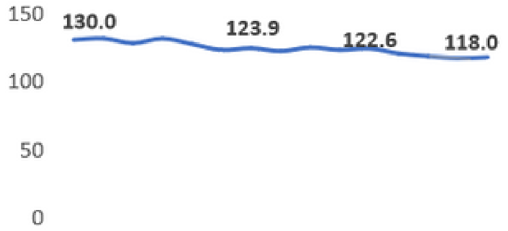
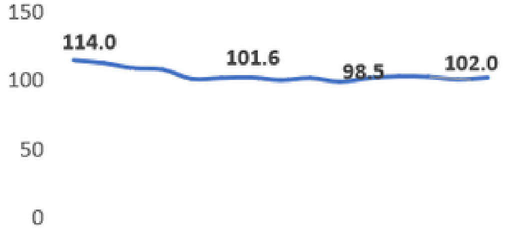
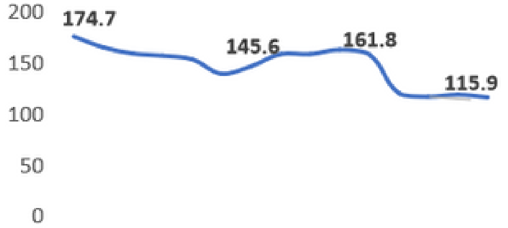
Nature of Policy rate Decisions by Central Banks in Q1’2024



Source: Capital Economics: Financial Times

- Global trend towards easing monetary policy with countries like Switzerland and Mexico noted to have initiated interest rate cuts.
- Countries with unique economic circumstances, like Japan and Turkey, have further tightened their monetary policy.
- Easing inflationary pressure has resulted in no policy rate change by the European Central Bank (ECB), Bank of England, the Federal Reserve (Fed) and other advanced economies.

6 Aside from energy, commodity price indices slowdown

Commodity	Price Index Trends Jan. 2023 – Mar. 2024 (Jan. 2010 = 100)	Key Events	Nature of Risks on the Global Economy
Energy		Extension of supply cut for most members of OPEC. Global economic slowdown leading to low demand. Geopolitical tensions and supply disruption in the Red Sea by Houthis.	Downside Risk Upside Risk Downside Risk
Food		Supply chain disruptions, higher freight costs and trade curbs. Volatile input costs, especially energy and beverages. Improving fertilizer affordability.	Downside Risk Downside Risk Upside Risk
Metal		Weak construction demand in China. Periodic trade and supply disruption. Slowing manufacturing sector growth in Western Europe.	Downside Risk Downside Risk Upside Risk
Fertilizer		Weak demand as farmers cut back fertiliser field applications. A production crunch in Europe. Disruptions due to sanctions on Russia and Belarus along side trade restrictions in China.	Upside Risk Downside Risk Downside Risk

Summary of Global economy in Q1’2024

1. **Slower Economic Growth in Q1’2024:** A combination of geo-political tensions in Europe and the Middle East, challenges in the Chinese Real Estate market and other socio-political factors constrained industrial performance in advanced and emerging markets
2. **Commodity price volatility plateau:** Aside from energy prices, there was a notable slowdown in prices of major commodities due to weak demand from major importing markets like China and Europe.
3. **Inflation remains resilient but moderating:** Despite a significant drop, progress has slowed, and there's been some uptick in countries with unique economic circumstances, such as Japan, Turkey, Nigeria, and others. However, improvements are expected in later parts of 2024.
4. **Interest rate cuts and no rate change dominate decisions of key global monetary institutions.** The world’s three biggest monetary policy institutions adopted a “no rate change” in the first quarter 2024.

Domestic Economic Updates

Five critical policy changes in Q1'2024 & short-term impacts

SUPPLY-SIDE POLICIES

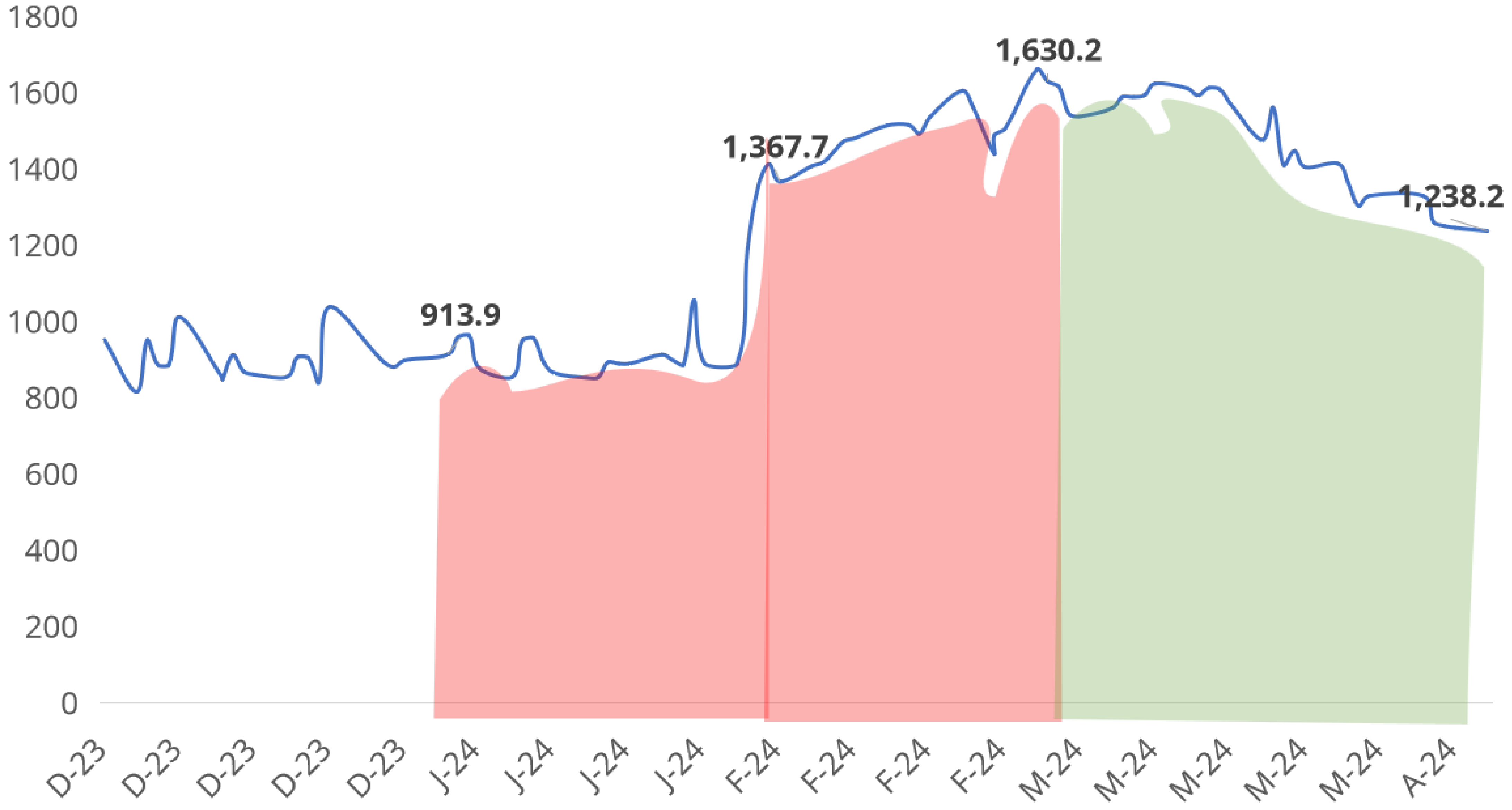
Managed Float Exchange Rate Regime	Closure of Electricity Subsidy	Hawkish Monetary Policy Posture
Net appreciation in value of Naira	Sudden hike in price of electricity	Higher cost of Credit
FX volatility increased business risks	Increased in overhead cost of businesses	Increased business risks and affect bottom-line
Triggered rise in prices of imported goods & services	Resulted in higher prices of goods & services	Increased final prices of goods and services

DEMAND-SIDE POLICIES

Review of National Wage Bill & Social Protection Programme	Fiscal Buffer & Infrastructure Support
Higher salary for workers & households	Increased spending on infrastructure development
Increased in labour cost to businesses	Increased business activities and growth
Increased in household income	Increased employment activities

1 The managed float regime, regulations and other factors boosted Naira's value

Naira Performance Against US$ in Q1'2024

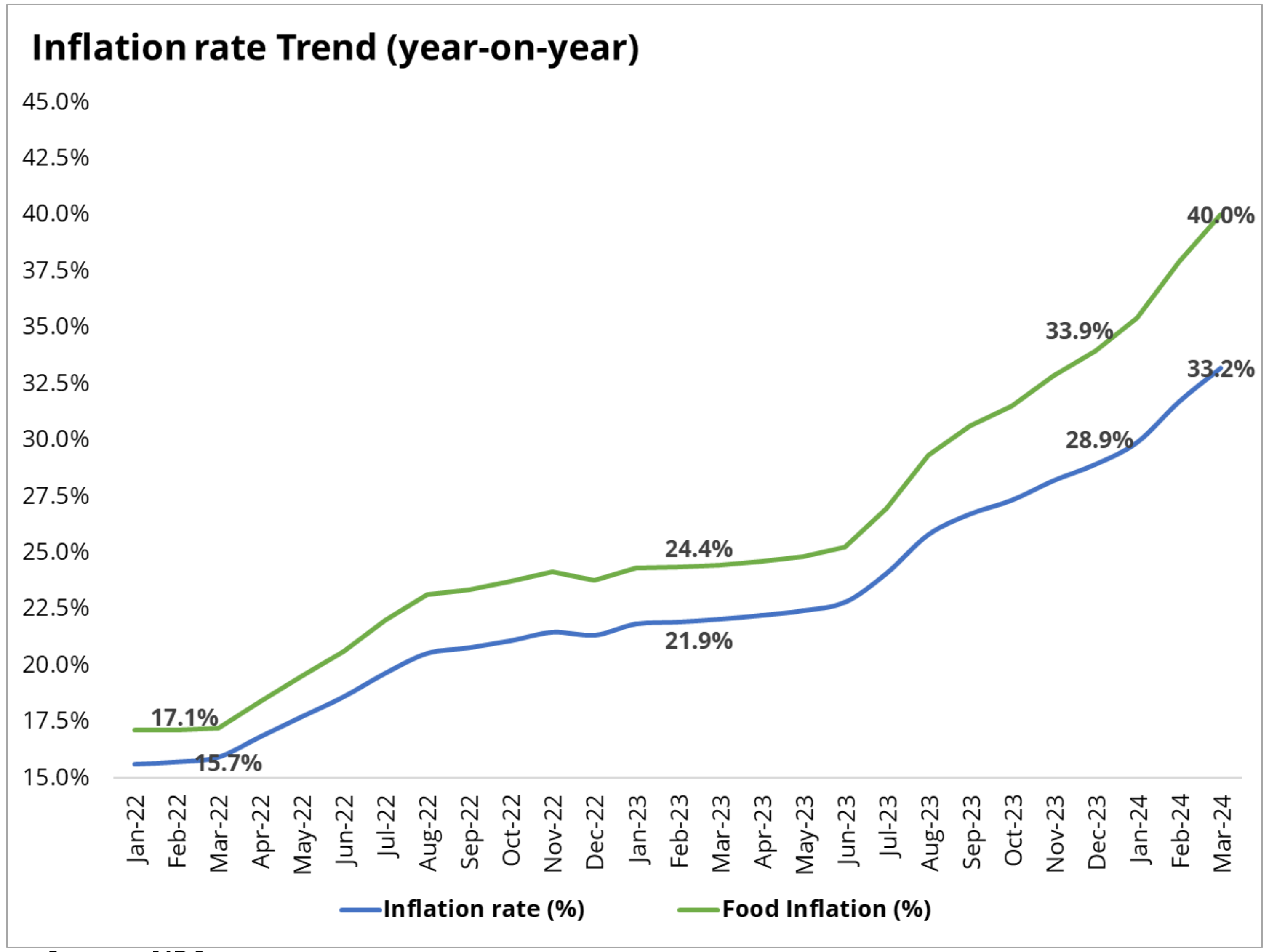


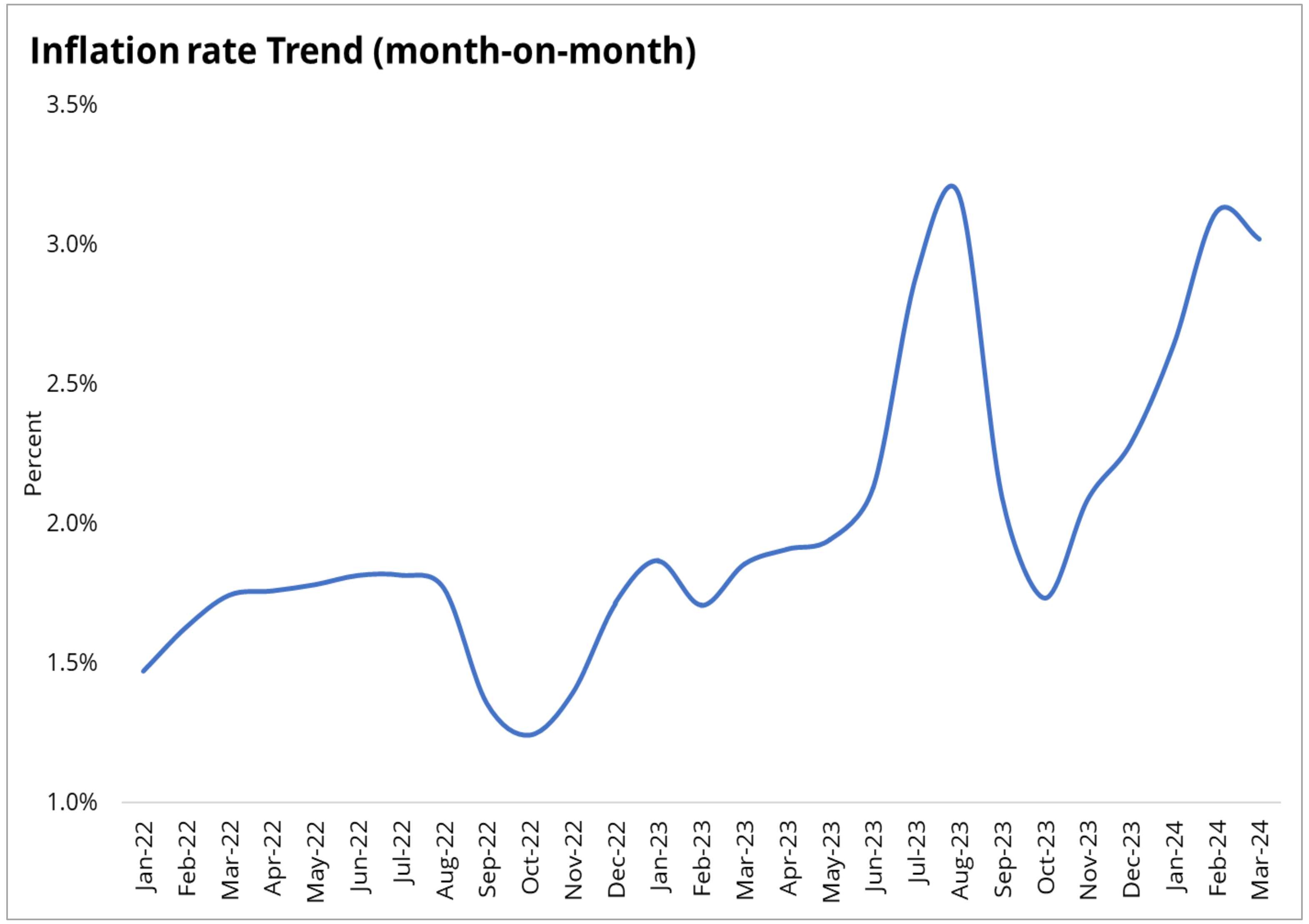
Source: CBN

- The implementation of willing-buyer, willing-seller has eased the pressure on the Naira. By March 28, the NAFEM closing rate was ₦1309.4 - a significant appreciation from a peak of ₦ 1,650 on February 26.

- Other drivers of FX rates performance in Q1'2024 include:
    - **Increased FX Market liquidity**
    - **Clearing of FX demand backlogs by the CBN**
    - **Consistent policies & directives by the Apex Bank.**

2 Rising energy costs, among other factors, drove Nigeria's inflation rate to its highest level since 1999

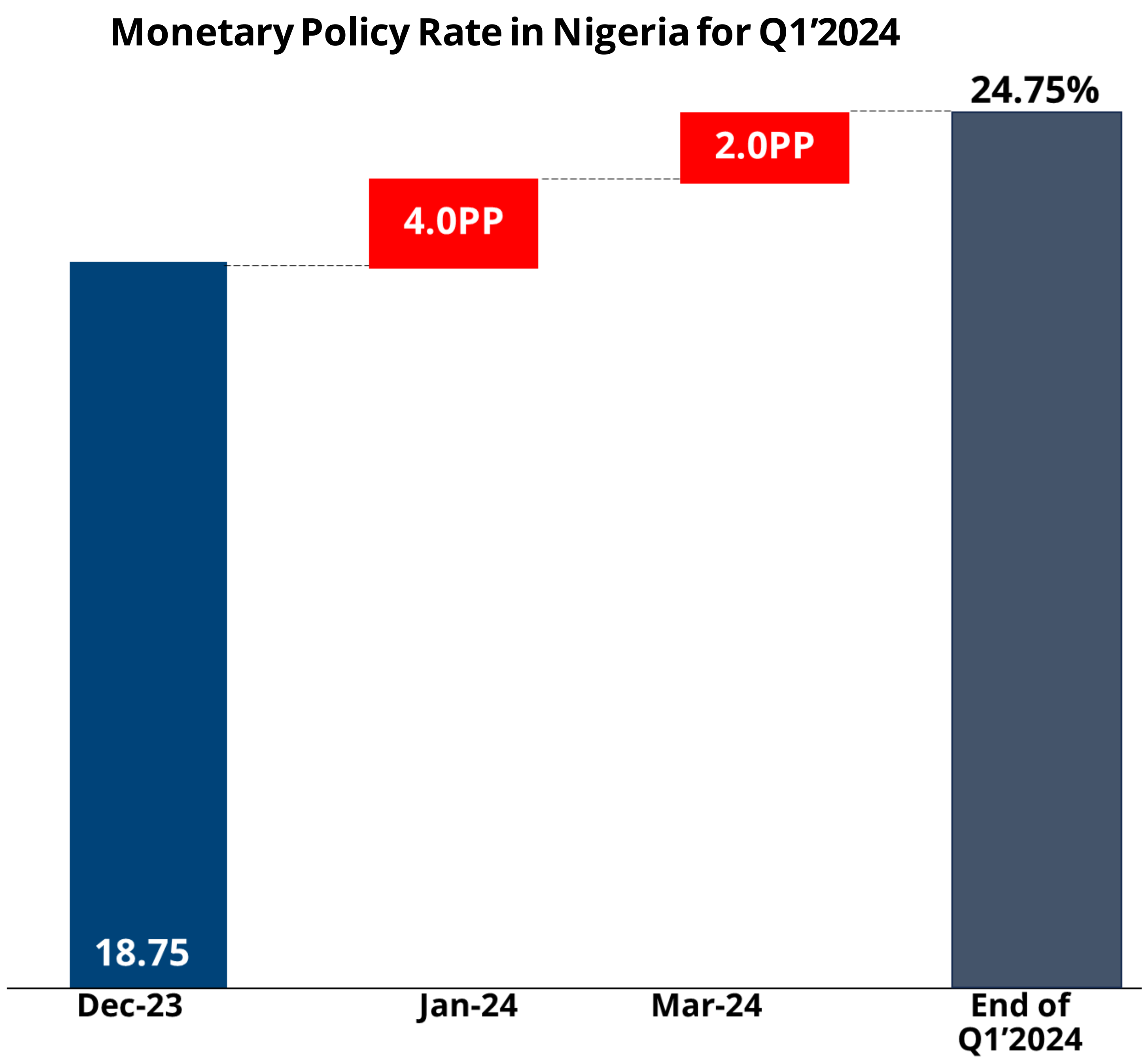




Source: NBS

In March 2024, food inflation in Nigeria reached 40.0%, underscoring its significant impact on overall inflation. Besides currency depreciation, factors such as decreased agricultural productivity, higher transport costs, high energy tariffs and insecurity in key food-producing regions also contribute to inflation dynamics.

3 Interest rate hikes dominated monetary policy decisions in Q1'2024



Source: CBN

- Policy interest rates rose in line with the inflation-targeting policy posture of the CBN. However, it has not kept pace with inflation.
- Policy interest rate was increased by 6.0 percentage points in Q1'2024. Thus, increasing it to a historical peak of 24.75% from 18.75% in December 2023.
- While rate hikes are necessary to tackle the monetary drivers of inflation, fiscal authorities must swiftly implement reforms to address longstanding non-monetary issues such as inadequate infrastructure, insecurity, and low productivity

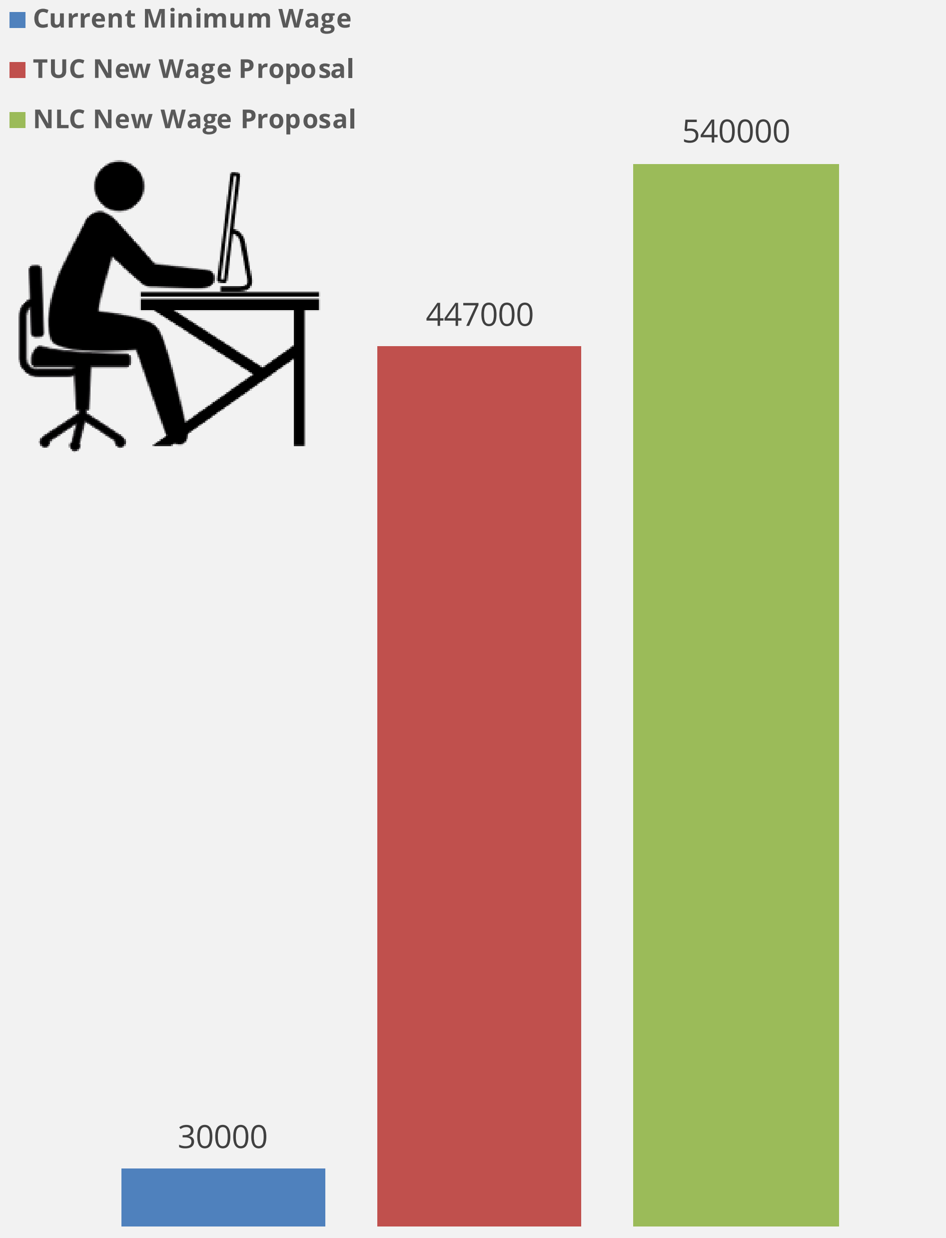
Assessing how high-interest rate transmission affects Nigeria's economic segments

Investors	• Key financial markets, especially the Nigerian Stock Exchange (NGX), have been on a positive run since the start of 2024.	✓
Government	• Significant increase in total inflows into the federation account.	✓
Businesses	• High cost of doing business • Low productivity & employment • Weak growth of non-oil export	✗
Households	• Heightened Inflation. • Weak citizens' purchasing power • Growing distrust among citizens	✗

Current reforms need better structuring to ensure an equitable distribution of costs and benefits among stakeholders. May require other policy and social support to rectify imbalances and protect the vulnerable citizens.

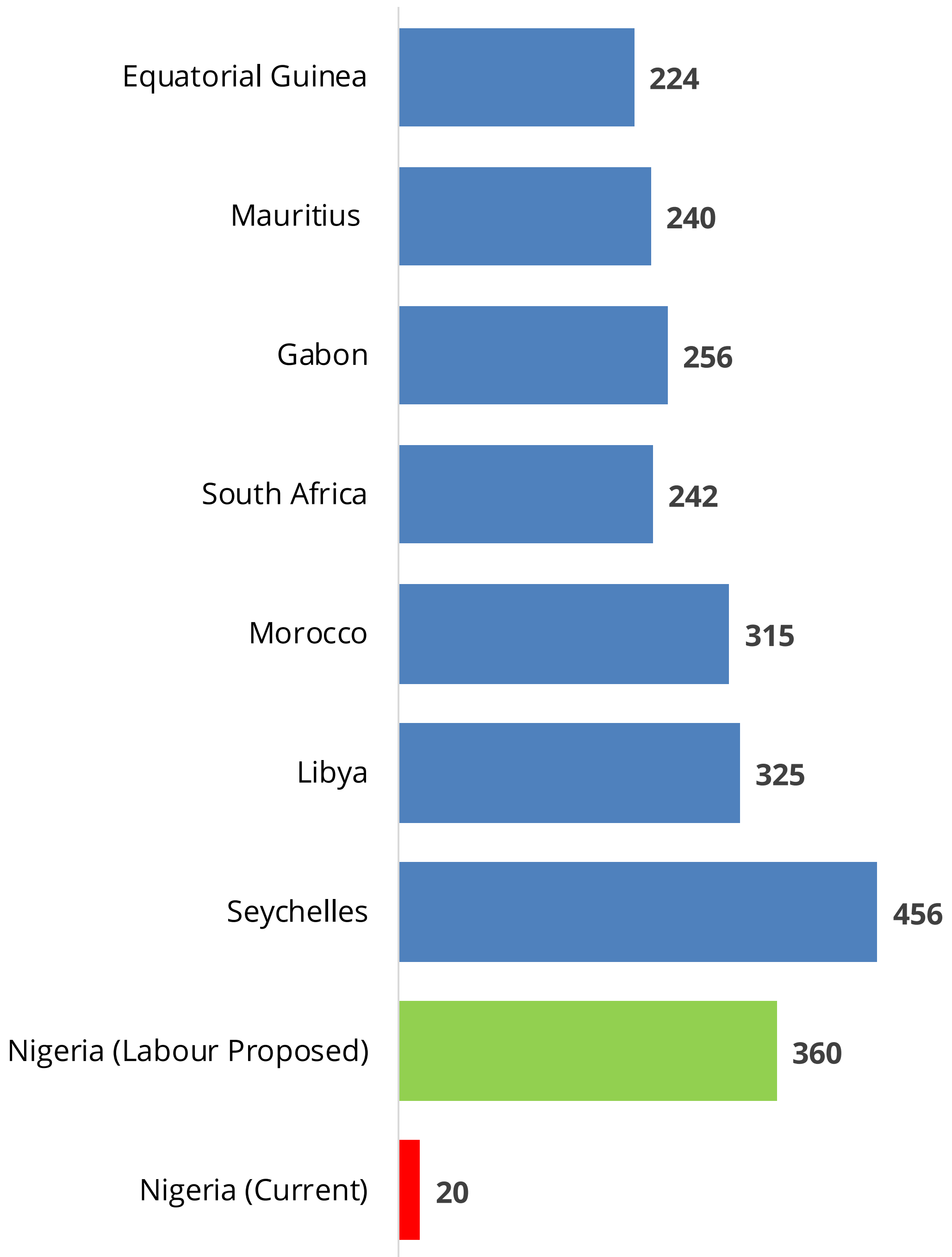
4 Minimum wage review could be inflationary amidst weak economic productivity

Current & New Minimum Wage proposal in Nigeria (Naira)



Source: CBN

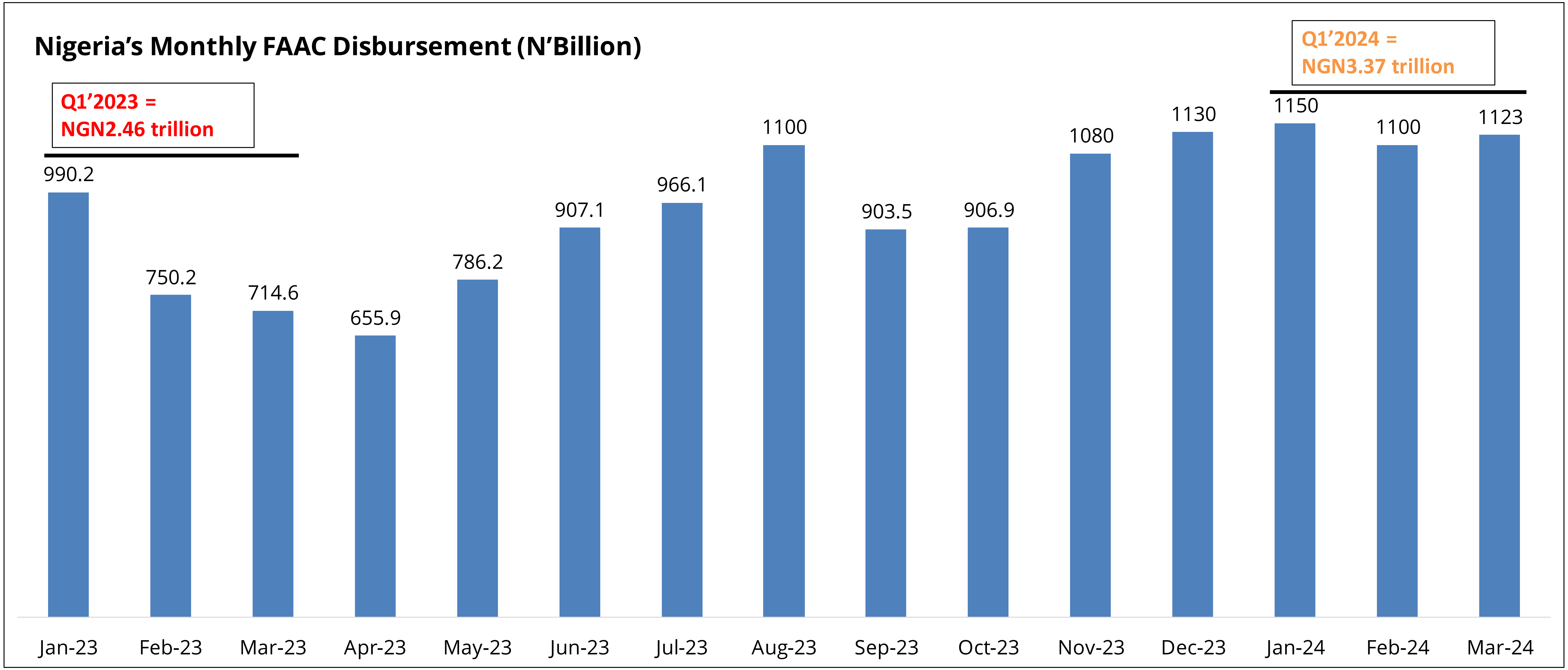
Nigeria's Minimum Wage and Other African Countries (US$)



Overall, the impact of the proposed new minimum wage is multifaceted and extends beyond increased labour costs on businesses in Nigeria. It would affect profitability, competitiveness, employment, and the broader economy.

- **Increased labour cost to businesses:** Rising labour costs in Nigeria will constrain business growth, increase operational expenses and squeeze profit margins.
- **Increased household income:** Higher worker salaries in Nigeria will greatly impact the economy and society by boosting consumer spending, raising living standards, driving economic growth and could fuel further inflationary pressure

5 Enhanced FAAC allocation bolstered government's fiscal reserves and capital spending.



Government revenue surged by 37.4% in Q1 2024 (N3.47 trillion) compared to the same period in 2023 (N2.46 trillion).

Economic Outlook for H1 2024

The Global Economy

Events that would shape performance of the global economy in H1'2024

Geopolitical tensions in the Middle East & Europe and spillover to America would disrupt global supply chains, raise commodity prices, and impact financial investments.

Sporadic rise in key internationally traded commodities especially energy prices

Potential stagflation of global economy due to poor growth in advanced economies and high-cost inputs and supply chain

- **Slow global real GDP growth:** The global fragmentation will increase trade risks and disrupt the value chain resulting in low real GDP growth. Inflationary pressure would be elevated due to subdued productivity in the industrial sectors of most advanced and emerging economies.

- **Commodity price hike would dominate the period due to escalation in geo-political tensions.** This would reduce real GDP growth and amplify inflationary pressure due to low production and trade restrictions on commodities such as energy and food.

- **Increase in cost of transport and limited access to market.** Businesses are expected to face higher costs and reduced access to the market due to high insecurity along crucial global logistic sea routes. Thus, leading to increased prices for consumer prices and limited options.

Economic Outlook for H1 2024

The Nigerian Economy.

What to expect in H1’2024 – The Real Economy

- The **real GDP growth** is expected to improve in the first half of the year, eventually pushing the economy towards a real GDP growth between **3.0 - 4.5% in H1-2024.**
- **Inflationary pressure** will amplify, erode purchasing power and result in a high cost of doing business. Prices will remain elevated in the first half of 2024.
- Exchange rate is anticipated to appreciated significantly moving towards N900/US$ - N1000/US$ owing to FX market clarity and improved transparency. However FX illiquidity will remain a concern to sustaining exchange rate appreciation

What to expect in H1'2024 – Monetary Policy

- In response to elevated price levels, the CBN would amplify the **Inflation targeting**, which involves further increases in interest rates and controlling the growth of the money supply.
- Anticipated growth in foreign investment inflows, especially Foreign Portfolio Investments (FPIs), is expected in the upcoming period compared to 2023, spurred by high interest rates. However, attracting Foreign Direct Investments (FDIs) will require medium to long-term structural reforms.

Other Key Outlooks - Business & Investments

- The cost of conducting business is anticipated to rise, impacting the short-term profitability and viability of numerous enterprises, particularly MSMEs.

- **External trade and current account surplus are poised for expansion.** This growth is attributed to the anticipated increase in the country's oil production and the potential increase in OPEC+ quotas, which would consequently boost the country's exports.

- **Exchange rate regulation and reforms will positively affect investments.** FX market clarity will enhance investor confidence, leading to increased capital importation and enhaces liquidity of the FX market.

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.

For a deeper conversation, collaboration and additional information with respect to this Report, please contact the following:

NESG Research & Development
research@nesgroup.org

THE SUMMIT HOUSE
6 Oba Elegushi Close, Off Oba Adeyinka Oyekan Avenue,
Ikoyi, Lagos.
P.M.B 71347, Victoria Island, Lagos.

ABUJA LIAISON OFFICE:
4th Floor, Unity Bank Tower,
Beside Reinsurance building
Plot 785, Herbert Macaulay Way,
Central Business District, Abuja

www.nesgroup.org
info@nesgroup.org
+234 1 2952849
officialNESG