2023

SPECIAL REPORT

STATE OF THE NIGERIAN ECONOMY

Fixing the Cracked Walls

Hard Choices, Better Future

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01 INTRODUCTION

As the world economy grapples with the aftermath of the COVID-19 pandemic and new challenges induced by the Russia-Ukraine conflict, economic growth has lowered, and the inflation rate has heightened in both Advanced and Emerging economies.

This situation resulted in an overheat of the global economy. Overall, the combination of rising commodity prices, global inflationary pressure, and slow growth in many Advanced economies affected global economic performance in the first half of 2023.

In a fashion similar to global economic performance, the Nigerian economy experienced slowed growth in the period under review. The real GDP growth of 2.4 percent was the lowest economic growth since Nigeria's full recovery from the COVID-19 pandemic. This performance was a result of a combination of policy mismatch and other challenges. The country experienced a surge in inflation, leading to a significant erosion of the local currency's value. Poverty level and other socio-economic indicators also deteriorated. Four (4) million Nigerians were pushed into poverty circle due to significant loss of purchasing power compared to the beginning of the year.

The policy environment in Nigeria was characterised by hostility and instability, encompassing fiscal policy, monetary policy, and regulatory measures. The fiscal space in Nigeria witnessed a growing budgetary deficit. Despite a rise in global oil prices during H1-2023, the government's actual revenue fell short of the pro-rated budget, while government spending was closer to the budgeted levels.

To address rising domestic inflationary pressures and support economic growth, the Central Bank of Nigeria (CBN) maintained its unorthodox monetary policy stance in H1-2023. The policy rate was adjusted three times in the period and closed the period at 18.8 percent from 16.5 percent in January 2023. These policy postures, along with other regulatory challenges, have impacted Nigerian private- sector businesses across all sectors.

While higher oil prices contributed to a trade surplus, foreign investors remained hesitant to invest in Nigeria, leading to a decline in total foreign capital inflows in Q1-2023 when compared with the same period of 2022.

The real GDP growth projection for Nigeria in 2023 was revised downward to 2.8 percent. Meanwhile, the level of robustness of implementation of the new reforms of the Nigerian government will have impact on the level of inflation, unemployment rate and other key social indicators. Given this economic landscape, the report concludes with specific short-term policy recommendations aimed at ensuring Nigeria's economy closes the year on a good note with significant improvement in economic performance and overall welfare of the citizens.

02 OVERVIEW OF THE GLOBAL ECONOMY

Historically, the performance of the global economy can be categorised into four quadrants representing two economic regimes: economic growth and inflation.

A: Reflation - Low inflation and low growth B: Recovery - Low inflation and high growth C: Overheat - High inflation and high growth D: Stagflation - High inflation and low growth

The placement of the globaleconomy within these performance quadrants is determined by a combination of economic, political, and social factors. These factors include geo-political tensions such as the Russia-Ukraine crisis, China-US trade and political tensions, the ongoing COVID-19 pandemic, and fluctuations in international commodity prices, among others.

During the first half of 2023, the global economy demonstrated a remarkable shift away from the anticipated risks of sliding into recession, as predicted at the beginning of the year. This favourable situation can be attributed to the decline in inflation, which contributed to increased productivity and economic growth, particularly in emerging markets. As a result, the prevailing theme for the global economy during this review period has been characterised by high inflation and moderate economic growth (See Figure 1 for a comprehensive overview of other dominant themes that have shaped the global economy throughout the years).

Notably, there are other significant overarching themes that deserve attention. These themes are outlined below:

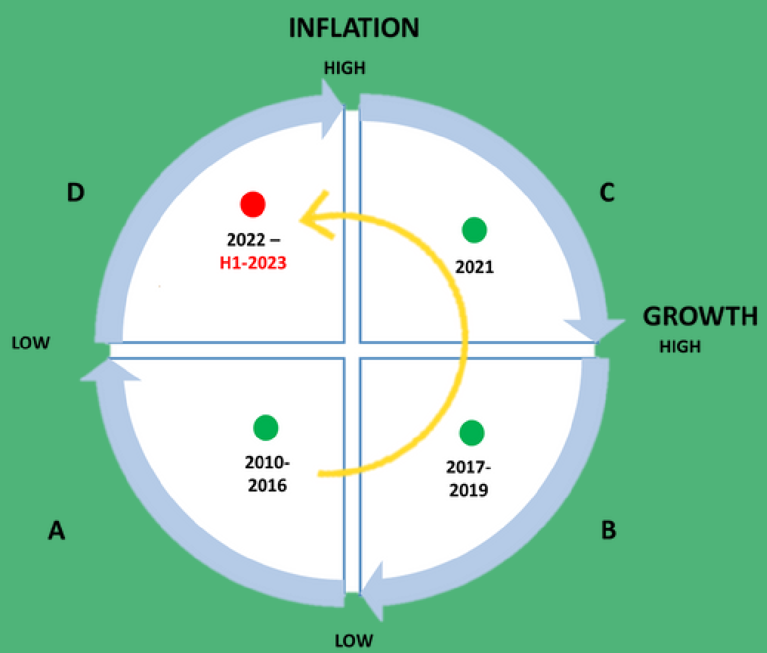


Figure 1: Global Economy, Period & Performance Quadrants

A. Global Economic Growth was Uncertain and Narrow Due to Fear of Recession in the US & Europe

Since the beginning of post-COVID-19 pandemic era, the productivity and growth level of the global economy have been persistently weak. A significant contributing factor to this subdued economic performance is the fragility of Advanced economies. In the first half of 2023, the global economic performance was primarily driven by the resilience of Emerging economies, notably China and some Sub- Saharan African (SSA) countries, as growth in Advanced economies and other OECD countries remained below 3 percent, both yearly and quarterly (See Figure 2 for more information).

The delayed impacts of monetary policy tightening have directly and indirectly affected the economic recovery momentum of most Advanced economies, including the United States (U.S.), the United Kingdom (U.K.), and several G-7 countries. Specifically, in H1-2023, the U.S. economy experienced an average growth rate of 2.2 percent, with Q1'2023 and Q2'2023 registering a growth of 1.8 percent and 2.6 percent, respectively. Meanwhile, other advanced economies, such as the United Kingdom and Japan, witnessed growth levels below two (2) percent during the review period. In contrast, despite a slowdown in some emerging markets, the Chinese economy exhibited resilience with a growth rate of 5.4 percent in H1-2023. Many developing countries, including Nigeria, also demonstrated higher growth rates compared to the Advanced nations.

Following a strong growth resilience in Emerging economies, the July edition of the World Economic Outlook (WEO) by the IMF for 2023 upgraded the global GDP growth forecast to 3.0 percent from 2.8 percent in April edition. Similarly, the growth forecasts for both Advanced economies and Emerging markets for 2023 have also been slightly increased, reflecting the mild improvement in various economic factors that affects economic growth and productivity.

Figure 2a. GDP Growth (%) - Year on Year

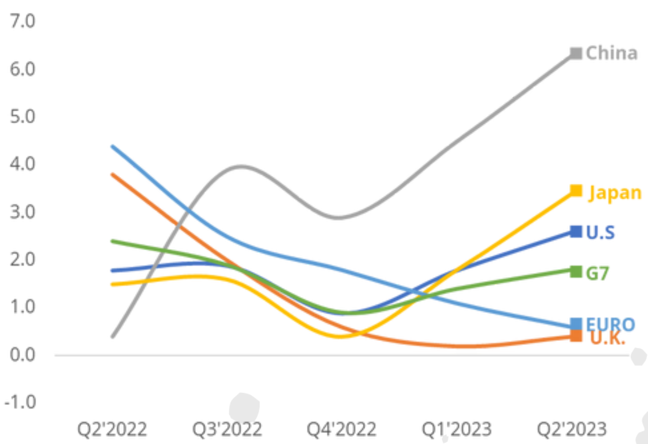
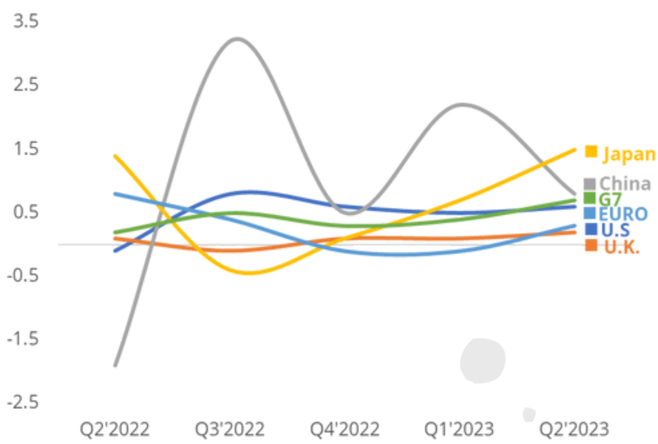


Figure 2b. GDP Growth (%) – Quarter on Quarter



Data: OECD; Office of National Statistics, U.K.; National Bureau of Statistics, China | Charts: NESG Research

B. Gradual Slowdown of Global Inflation but Prices Are Still Stubbornly High

Inflation is easing, but the rate of decline is slow due to the persistence of sticky and stubborn core (non-food) inflation, primarily caused by elevated commodity prices, especially raw materials, and natural gas. While headline inflation in most Advanced countries has moderated somewhat, it still remains historically high and exceeds the targets set by most central banks.

During H1-2023, both Advanced and Emerging economies experienced a surge in the price level, resulting in multi-year highs for inflation. However, it is noteworthy that the rate of acceleration in inflation has slowed down compared to a similar period in 2022.

Inflation is decreasing, but the rate of change is slow because core (non- food) inflation remains sticky and stubborn due to high commodity prices, particularly raw materials and natural gas.

INFLATION RATE (PERCENT) CPI

	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
U.S.	7.5	7.9	8.5	8.3	8.6	9.1	8.5	8.3	8.2	7.7	7.1	6.5	6.4	6.0	5.0	4.9	4.0	3.0
U.K.	5.5	6.2	7.0	9.0	9.1	9.4	10.1	9.9	10.1	11.1	10.7	10.5	10.1	10.4	10.1	8.7	8.7	7.9
Germany	5.1	5.5	7.6	7.8	8.7	8.2	8.5	8.8	10.9	11.6	11.3	9.6	9.2	9.3	7.8	7.6	6.3	6.8
France	3.3	4.2	5.1	5.4	5.8	6.5	6.8	6.6	6.2	7.1	7.1	6.7	7.0	7.3	6.7	6.9	6.0	5.3
China	0.9	0.9	1.5	2.1	2.1	2.5	2.7	2.5	2.8	2.1	1.6	1.8	2.1	1.0	0.7	0.1	0.2	0.0
Euro	5.1	5.9	7.4	7.5	8.1	8.7	8.9	9.2	9.9	10.6	10.1	9.2	8.7	..	..	..	..	..
India	5.8	5.0	5.4	6.3	7.0	2.5	2.7	2.5	2.8	2.1	1.6	1.8	2.1	1.0	0.7	0.1	0.2	0.0
Brazil	10.4	10.5	11.3	12.1	11.7	11.9	10.1	8.7	7.2	6.5	5.9	5.8	5.8	5.6	4.7	4.2	3.9	3.2

Heatmap: Inf=>5 | Inf<5 but >2 | Inf<=2

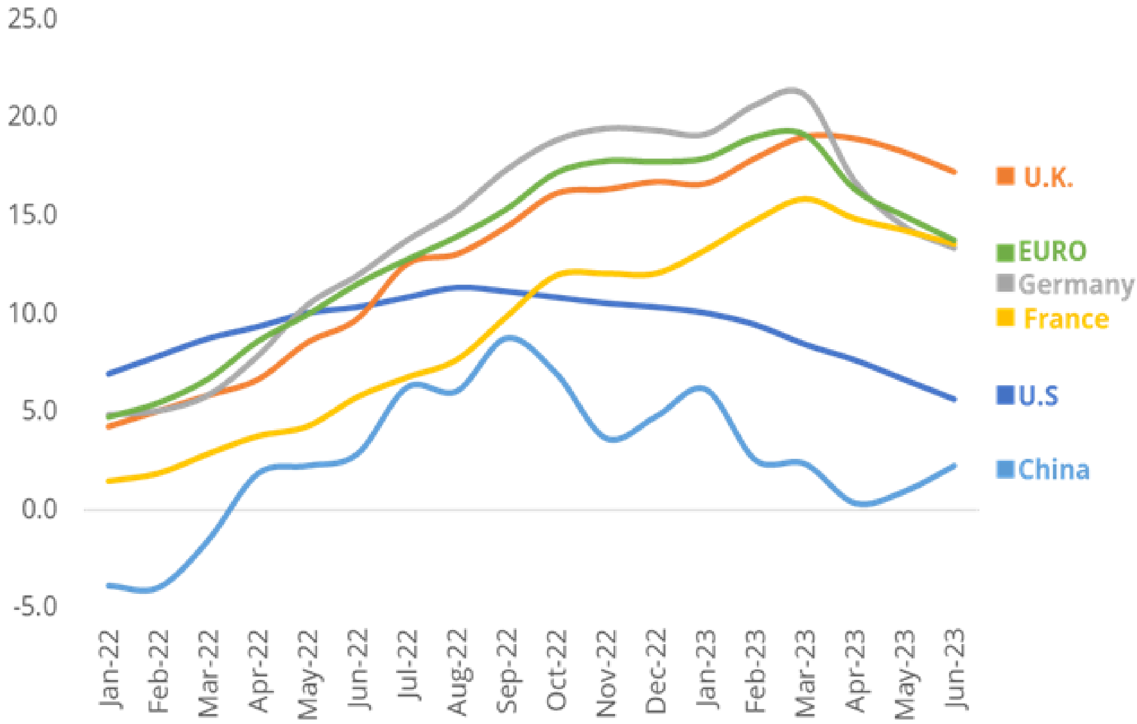
Data: OECD; Office of National Statistics, U.K.; National Bureau of Statistics, China

B. Gradual Slowdown of Global Inflation but Prices Are Still Stubbornly High

Local food prices in many countries have experienced a downward trend in response to a combination of factors (See Figure 3). Firstly, decreasing energy and crude oil prices have contributed to lowering production costs which favourably drag down food prices. Secondly, Russia-Ukraine and COVID-19 pandemic-induced supply-chain constraints have further eased, leading to improved supply and lesser distribution challenges. As a result of these multiple factors, there has been a notable decrease in food inflation, particularly in Advanced economies.

In SSA and other developing countries which are net importers of food & other manufactured goods, the net effect is observed to be insignificant due to escalating levels of food inflation which was above 20 percent for SSA region in H1-2023. Imported (food) inflation is mainly permeated into the domestic economy via weak local currency in many of these countries.

Figure 3. Food Inflation – Percent



Data: OECD; Office of National Statistics, U.K.; National Bureau of Statistics, China

C. Monetary Tightening & Surge in Prices Dominate International Financial and Commodity Markets

In response to above-target inflationary levels, many central banks around the world maintained a hawkish monetary policy stance to control the high price levels. Notably, the U.S. Federal Reserve and other central banks raised their policy rates, reaching cyclical or historical peaks during the review period.

Despite high interest rates, key investments in Advanced economies such as the U.S., Eurozone, and Japan yielded negative returns in H1'2023. This policy approach had a significant impact on investments and other productive activities, as the net returns on investments remained largely negative. Moreover, the higher interest rates led to an increase in the cost of credit for businesses in the real sector.

During H1-2023, commodity prices remained elevated. While there were occasional declines in the prices of major commodities, the cost of industrial goods and other raw materials remained high and significantly above their levels during the same period in 2022. This sustained inflationary pressure continued to put strain on various industries and economies.

03 NIGERIAN ECONOMY IN H1-2023

The first half of 2023 in Nigeria was characterized by a mix of electoral tensions, policy decisions by the government, and their impact on the private sector and other productive sectors.

The first two months of the year (January & February 2023) saw disruptions in economic activities and widespread hardship caused by the Central Bank of Nigeria's (CBN) Naira redesign policy and cash withdrawal limit. These policies resulted in a liquidity crisis with severe impact on economic and productive activities, leading to contractions of many sectors as well as stifling the informal economy.

Additionally, the 2023 General Election process and outcomes reignited political tensions among various ethnic groups, political parties, and demographic divisions, reminiscent of what happened in 2011. These tensions further fractured the country's socio-cultural fabric.

Amidst these escalating politicaltensions and risks, the economic direction taken by the new administration in Nigeria, led by President Bola Ahmed Tinubu, has reduced policy uncertainty.

The country moved towards adopting pro-market policies that mitigated exchange rate risks and eased the fiscal constraints that had been burdening the Nigerian economy since 2015. However, despite these policy changes, the rise in socio-cultural hostility due to insecurity, kidnapping, farmer-herder clashes, and other factors continued to complicate the situation. The combination of these multifaceted factors collectively contributed to the current state of the Nigerian economy in H1-2023.

3.1 REAL SECTOR DEVELOPMENT

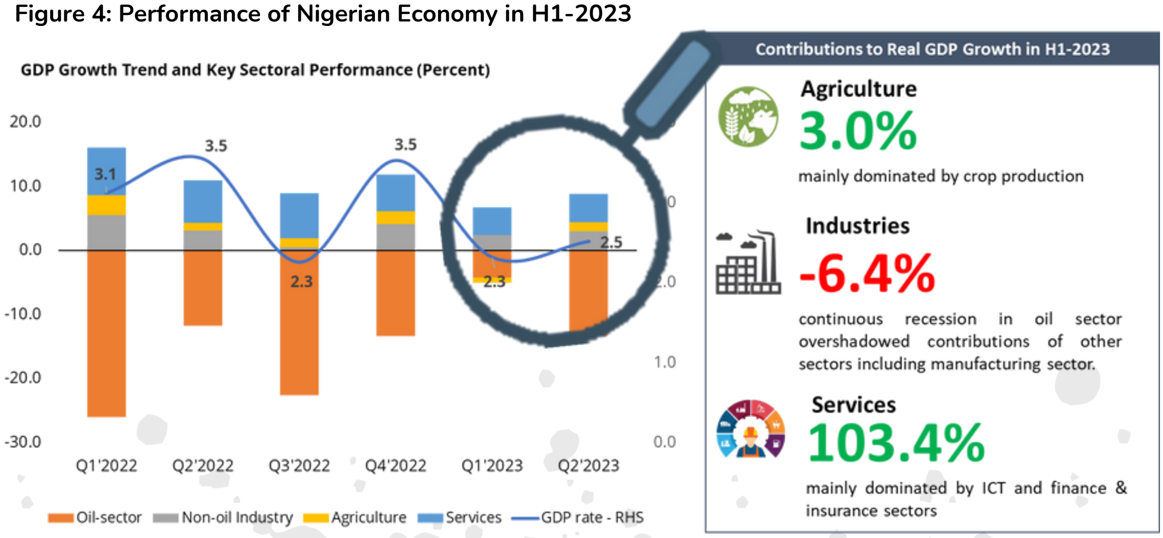
A. Economic Growth Performance - Non-oil Sector Remained the Life-Saver of the Nigerian Economy

The Nigerian economy continued to show positive growth in H1-2023, although at a slower pace compared to the same period in 2022. According to the National Bureau of Statistics (NBS), the country's 'real' Gross Domestic Product (GDP) expanded by 2.4 percent during H1-2023, with Q1'2023 and Q2'2023 experiencing growth rates of 2.3 percent and 2.5 percent, respectively. The Naira liquidity crunch in the first quarter of 2023 shaved off about 80-100bps from growth, leading to a moderation in GDP to 2.4 percent in H1-2023 (vs 3.3 percent in H1-2022.). The tamer growth was more evident in the agriculture sector recorded a negative growth for the first time in Q1’2023 since 2020, and non-oil sector was at its lowest level in two years.

The growth composition analysis revealed that the Non-oil sector played a crucial role in sustaining the overall economic growth momentum (see Figure 4B). Throughout the specified period, the Non-oil sector exhibited strong growth, acting as a lifeline for the overall economy. The impressive performance of various Non-oil sectors, including Non-oil industries, Services, and Agriculture sectors, significantly contributed to Nigeria's economic expansion. Notably, the Non-oil Industrial sector grew by 2.6 percent, the Services sector by 4.4 percent, and the Agriculture sector by 0 . 3 percent. These sectors collectively contributed to a growth of 3.2 percent in the Non-oil sector.

By maintaining a upward growth trajectory, the Non-oil sector effectively offset the adverse impact of the struggling Oil sector, which experienced a significant decline of 8.8 percent during the same period. The Oil sector's prolonged recession since Q1'2020 has posed challenges for the country's GDP growth rate, making the resilience of the Non-oil industries even more critical. This performance makes the call for diversification in the sources of economic growth essential for the country's long-term stability and economic prosperity.

Figure 4: Performance of Nigerian Economy in H1-2023



Data: National Bureau of Statistics |Calculation & Chart: NESG Research

B. Sectoral Development – Traditional Growth Drivers in Previous Years Experienced Poor Growth in H1-2023

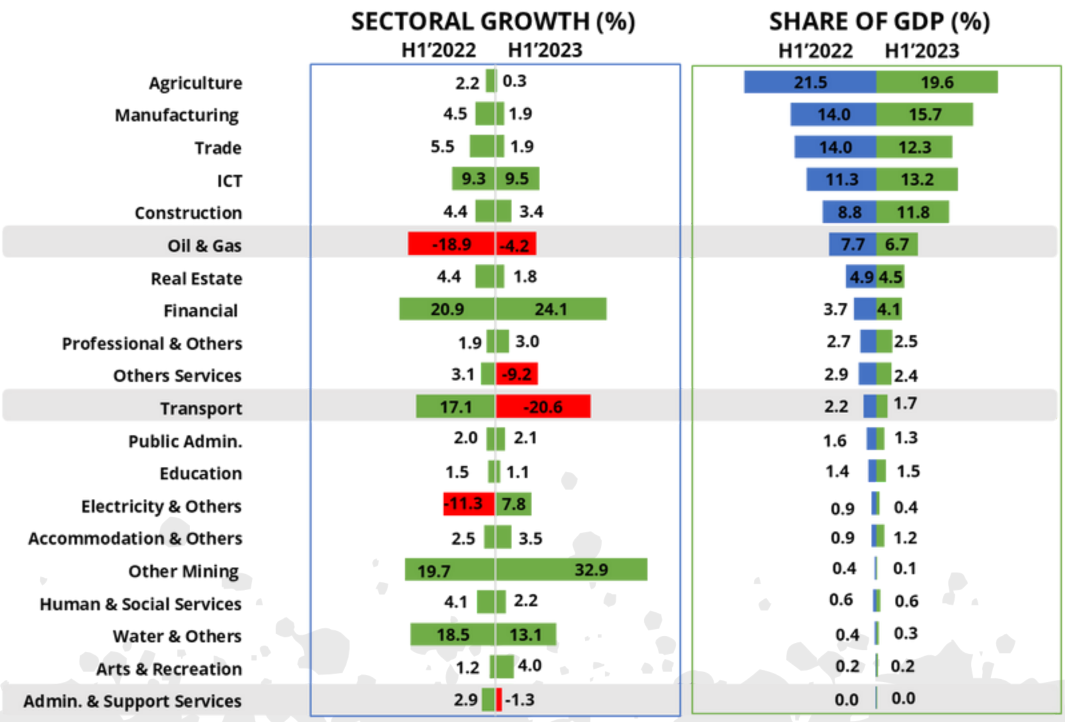
The sectoral performance of the Nigerian economy in H1-2023 reflected the impact of policy misplacements on the economy, especially the liquidity crunch caused by the Naira redesign policy. Most of the traditional growth drivers are cash-driven sectors and thus experienced huge performance declines in H1'2023 when compared with H1'2022 and full year of 2022.

Agriculture sector only grew by 0.3 percent in H1-2023. This is a huge performance decline when compared with 2.2 percent and 1.9 percent in H1'2022 and FY'2022, respectively. In the industrial sector, the Oil sector experienced an improved performance but remained in the negative growth region (-4.2 percent in H1-2023 compared to -18.9 percent in H1-2022).

Other Industrial sub-sectors such as Manufacturing, other Mining and Construction grew by 1.9 percent, 32.9 percent and 3.4 percent, respectively. Except for Construction sector, this performance is weaker when compared with their output growth in H1'2022 (see Figure 5).

All sub-sectors of the Services sector, except ICT and Finance sectors, also experienced weaker growth in the period under review when compared with their performance in H1'2022 and FY'2022 (see Figure 5). ICT and Finance sectors expanded by 9.5 percent and 24.1 percent compared to 9.3 percent and 20.9 percent in H1'2022. The weak growth performance is not far-fetched as these sectors have strong linkages with the informal sectors. Hence, the liquidity crunch experienced by the economy in this period resulted in weak informal sector performance and this adverse impact shock was transmitted to many sub-Services sectors.

Figure 5: Sectoral Performance of Nigerian Economy in H1-2023



Data: National Bureau of Statistics |Calculation & Chart: NESG Research

C. Inflation Rate – Soaring Prices Pushed 4 Million More Nigerians into Poverty Circle

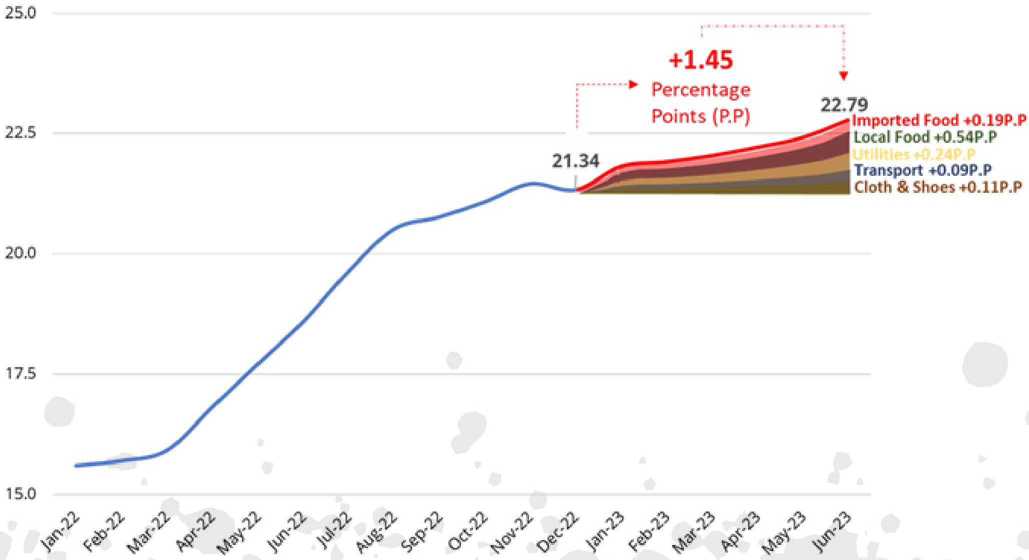
Mainly driven by supply-side factors such as increase in cost of production, persistently high inflation is one of the prevailing economic themes in Nigeria. In H1-2023, changes in consumer prices -inflation rate, reached an 18-year high at 22.79 percent in June 2023. This figure is 1.45 percentage point rise when compared to 21.34 percent in December 2022 (see Figure 6).

A component of the factors driving inflationary pressure in Nigeria showed that high domestic food and imported food prices contributed about 0.54 percentage points and 0.19 percentage points to new inflationary pressure experienced in the period under review (aee Figure 6). Pro-market government's policies such as removal of fuel subsidy among others resulted in high transport, fuel, energy and the cost of other utilities. These components of consumer prices contributed 0.33 percentage points to new price levels in the country.

With the liberalization of the foreign exchange (FX) market, NNPCL (Nigerian National Petroleum Corporation) and other PMS importers will obtain dollars at a higher rate, leading to a likely increase in the PMS pump price. The resulting implied volatility in PMS prices will have a cascading effect on other prices, making the cost of living a genuine concern for the populace in the near term.

Analysing the impact of eroding purchasing power of the populace showed that more Nigerians have been dragged into the poverty net. According to the World Bank's Nigeria Development Update (NDU) for June 2023, about 133 million Nigerians are currently living below the poverty line. The soaring inflationary pressure in H1-2023 added 4 million Nigerians to the existing number of people living within the poverty bracket. However, there is hope for a gradual recovery in spending capacity in the medium term, supported by net-subsidy savings, an improved wage structure, and enhanced economic growth. These factors are anticipated to contribute to the gradual improvement of the economic situation, alleviating the burden on the impoverished population.

Figure 6: Inflation Trend and Contributory Components in H1-2023



Data: National Bureau of Statistics |Calculation & Chart: NESG Research

3.2 MONETARY POLICY

Heterodox Policies Resulted in Limited Gains to the Nigerian Economy

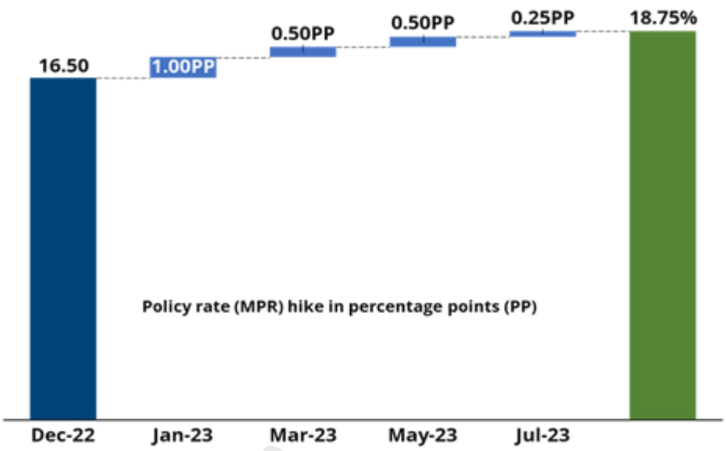
In H1-2023, Nigeria's overall monetary policy stance remained heterodox – sustaining its unconventional practices. The Central Bank of Nigeria (CBN) started the year with adopting stricter implementation of the introduction of new N200, N500, and N1,000 notes which caused significant squeeze of the currency in circulation. In addition, the policy rate and other monetary parameters were adjusted to meet the core objectives of monetary policy that is. supporting economic growth and managing inflationary levels, in Nigeria.

The policy rate – monetary policy rate, has been adjusted four times in the last six months – from 16.50 percent in December 2022 to 18.75 percent in July 2023 (see Figure 7). Other policy parameters, such as the Cash Reserves Ratio (CRR) and liquidity ratio were retained at 32.5 percent and 30.0 percent respectively throughout all monetary policy committee meeting held in the period under review.

The recent leadership changes in the CBN have paved the way for policy adjustments of the monetary institution. For context, the CBN has removed restriction on exchange rate as well as removal of the cap and floor rates that were previously imposed on the interbank market, which restricted trading within a range of +100/-700 basis points around the Monetary Policy Rate (MPR).

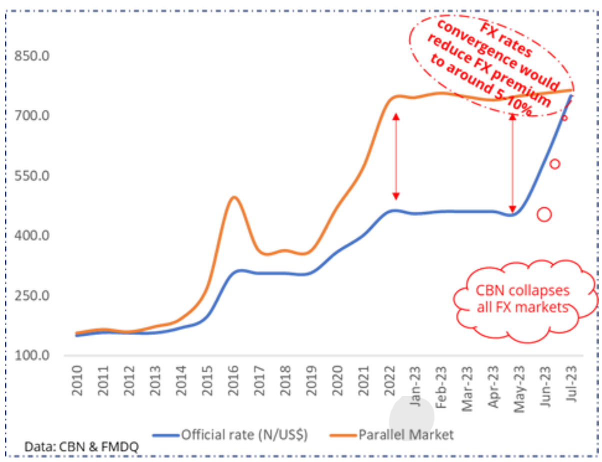
On exchange rate, the premium between official and black-market rates narrowed to around 5-10 percent in H1-2023. In the period, the Naira depreciated by 71.7 percent in the Investors' & Exporters (I&E) i.e the official market, from N448.6 at the start of the year to N770.4 to a US dollar as of June 30, 2023 (See Figure 8).

Figure 7: Monetary Policy Rate Movement in H1-2023



Data: CBN| Chart: NESG Research

Figure 8: Nigeria's Exchange Rate (NGN/US$) in 2023



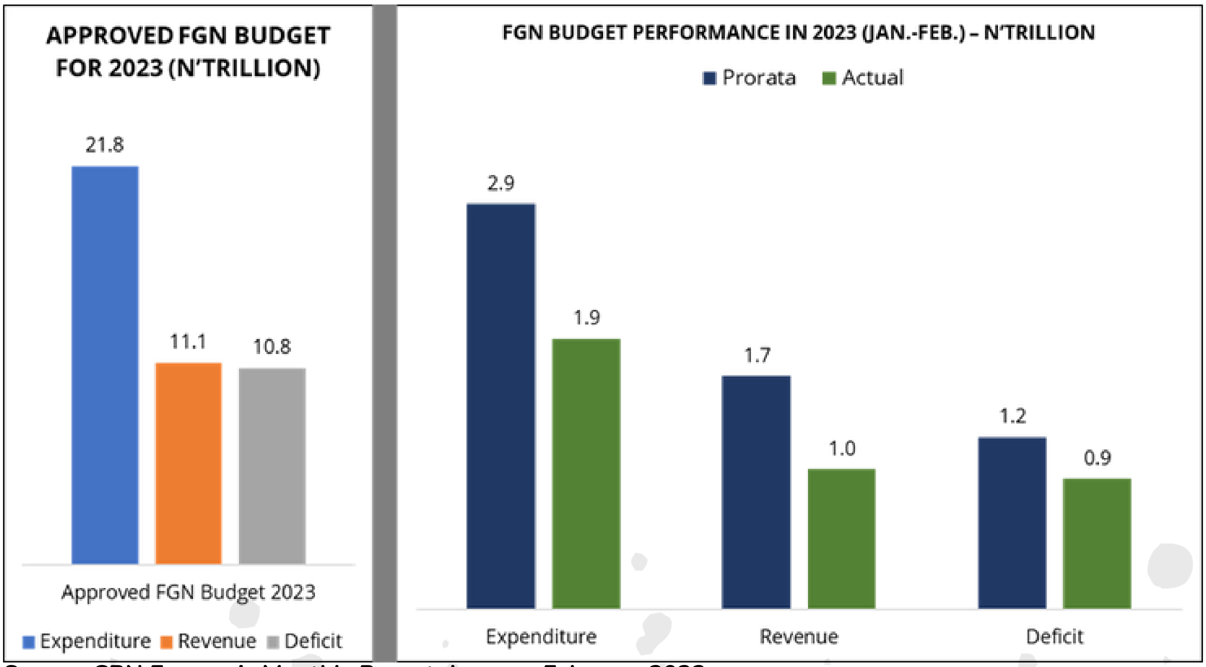
3.3 FISCAL POLICY PERFORMANCE

Nigeria's Fiscal Vulnerabilities Expanded Due to Poor Revenue Performance.

At the start of 2023, the previous administration signed into law an appropriation bill (budget) of N21.8 trillion tagged the budget of fiscal sustainability and transition (See Figure 9). Due to the limited information on the budget performance, analysis would be restricted to first two months of the year. In this period, all components of the budget performance below their prorate values. Revenue performed by 41.2 percent (N700 billion) below target while expenditure and budget deficit were 34.5 percent (N1.0 trillion) and 25.0 percent (N300 billion) below prorate values for the January and February 2023 (see Figure 9).

In the period under review, Nigeria faced significant fiscal vulnerabilities as total public debt and debt servicing hit all time high. Thus, this situation notably constrained spending space for infrastructure and other developmental projects. According to the Debt Management Office (DMO), the total public debt was N49.9 trillion as at March 2023. This value is excluding the CBN's Ways and Means to the federal government. As of Q1'2023, the total credit facility to the Federal Government by the CBN was estimated at N22.7 trillion. This value was N0.13 trillion in 2012. Based on the exchange rate of ₦753.0/US$ from the CBN and the latest debt numbers in Q1'2023, Nigeria's total debt level is projected to increase significantly due to the devaluation.

Figure 9: FGN Budget Performance in 2023 (January-February)



Source: CBN Economic Monthly Report, January-February 2023

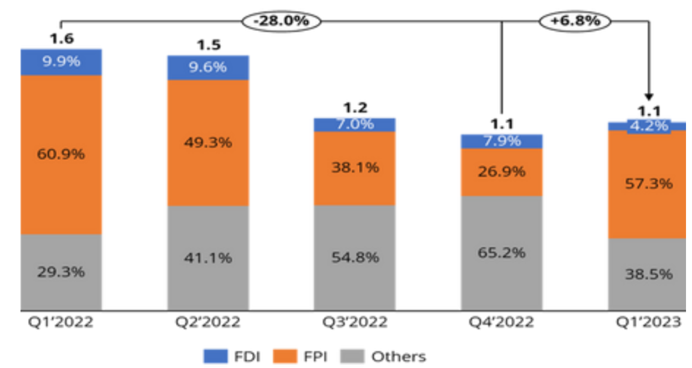
3.4 EXTERNAL SECTOR

Foreign Investors Had Limited Long-Term Prospect While Trade Balance Remained Positive in H1-2023

The Nigeria's external sector, most especially its investment market, has faced a scarcity of pro-market policies, and this posture affected its performance in H1-2023. A total of US$1.1 billion was received as foreign capital inflows in Q1'2023. This performance represents a decline of 28.0 percent when compared with Q1'2022 (but an improvement of 6.8 percent when compared with Q4-2022).

Analysis of the components of foreign capital showed a decline in shared of Foreign Direct Investment (FDI) and its absolute value when compared with the same period in 2022. This posture showed that investors are still weary of holding a long-term investment stance on the Nigerian economy.

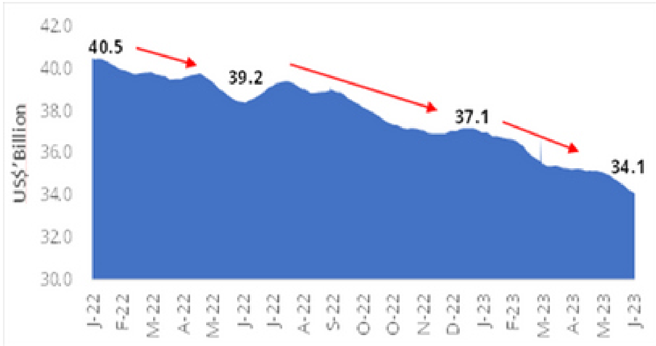
Figure 10: Foreign Capital Importation in Nigeria (US$' million)



Data: NBS | Chart: NESG Research

Since foreign capital inflows are a portion of the country's external reserves, the total external reserves also declined significantly in the period under review. In H12023, Nigeria's external shed about US$3 billion (fell from US$37.1 billion in December 2022 to US$34.1 billion in June 2023). This is about 8.1 percent decline incountry's external reserves (See Figure 11).

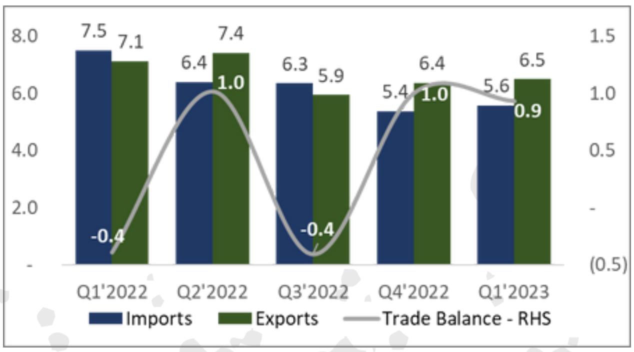
Figure 11: Trend of External Reserves in 2023 (US$'Billion)



In addition, the current policy reforms are promising for foreign capital providers. The influx of additional investments into the country will depend on the willingness of the CBN to address existing backlogs of FX demands and notable enhancements in FX supply. These two factors will significantly improve foreign inflows to surge from the multi-year highs by the end of 2023.

Instructively, Nigeria's trade performance gained from the high oil prices in the period under review. In Q1-2023, the trade balance was a surplus of N0.9 trillion which is an improvement from a deficit of N0.4 trillion in Q1-2022. Also, the imports and exports were lower than their values in the same period of 2022 but higher than their performance in Q4-2022 (See Figure 12). The lower export value in Q1-2023 is due to fall in the value of crude oil export and production in the period.

Figure 12: Trade Performance in Nigeria (N'Trillion)



Data: NBS | Chart: NESG Research

3.5 BUSINESS ENVIRONMENT: NEW CHALLENGES, NEW TRENDS

During H1-2023, Nigerian private-sector players encountered numerous new business headwinds and regulatory challenges that had far-reaching effects on their performance and profitability across all sectors of the economy. These obstacles created a challenging environment for businesses, making it difficult for them to operate smoothly and achieve their full potential. The impact of these challenges was felt across the entire spectrum of industries in the Nigerian economy, leading to decreased productivity and financial strain for businesses.

During the period under review, the Naira liquidity crunch emerged as a significant policy headwind in the Nigerian business environment. This challenge had widespread repercussions, impacting both formal and informal sectors and undermining the profitability of large businesses and Micro, Small, and Medium Enterprises (MSMEs) alike. The scarcity of Naira discouraged new investments and hindered the generation of fresh orders for goods and services. Moreover, it led to an increase in production costs for local businesses, making it difficult for them to maintain operations smoothly. Additionally, the scarcity of Naira liquidity posed obstacles to both domestic and international transactions, further complicating business activities.

Crucial sectors of the economy, including Agriculture, Manufacturing, Construction, and Trade, heavily reliant on cash flow, bore the brunt of this policy's suffocating impact. The consequence was a decline in productivity within these sectors, as they struggled to cope with the adverse conditions created by the Naira liquidity crunch in Nigeria.

Throughout H1-2023, the persistent Naira depreciation and substantial backlogs of foreign exchange (FX) demand in the official exchange market added to the challenges faced by businesses, resulting in heightened production and operating costs. The private sector grappled with maintaining productive activities amid the escalating prices required to meet their foreign demand. Moreover, the lack of adequate business supporting infrastructure, including roads and ports, further complicated productive activities during the review period. As a consequence, businesses found it difficult to pass on all the increased production costs to consumers, leading to a decline in their profit margins.

In H1-2023, there were unprecedented energy cost increases due to the new administration's decision to remove fuel subsidies. Fuel prices surged dramatically by over 300 percent, soaring from N165/litre to an average of N560/litre. This abrupt rise in fuel prices had a profound impact on all economic agents in the country, particularly businesses and households. The removal of fuel subsidies resulted in higher prices for goods and services, reducing the purchasing power of households' income and putting added financial strain on businesses. The absence of palliatives or compensatory measures from the government further exacerbated the situation, leading to the erosion of households' welfare and an increase in production costs for businesses. This policy stance had significant repercussions on the economy, affecting not only the daily lives of households but also the operational viability of businesses. The increased energy costs added to the financial burden and posed challenges to businesses' sustainability and growth prospects.

04 POLICY ACTIONS OF THE NEW ADMINISTRATION IN NIGERIA

In Nigeria, particularly since 1999, each administration has been characterized by distinct political and economic ideologies that shape the government's priorities and reform agenda.

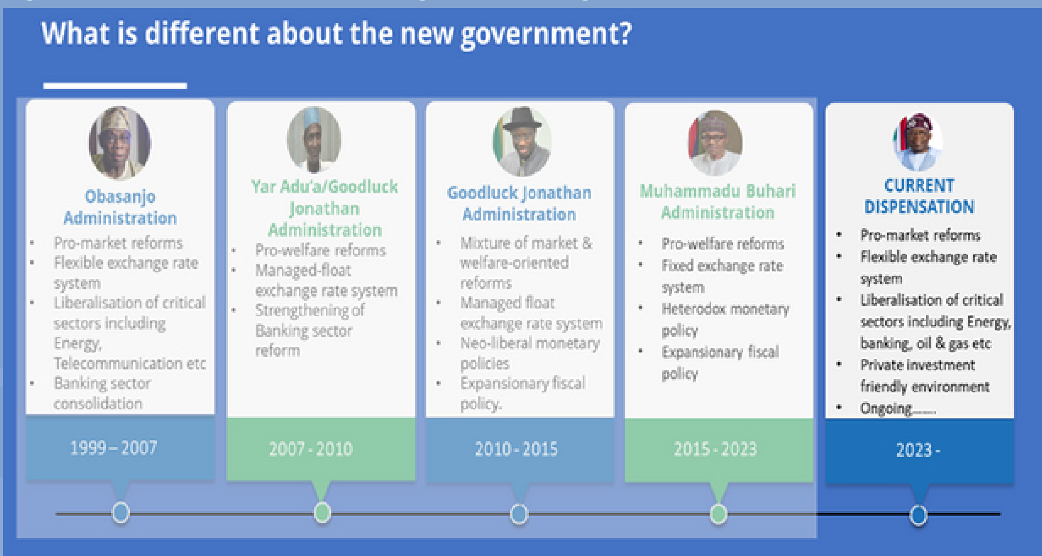
Since its inauguration, the current administration has undertaken commendable and strategic policy reforms, offering the promise of revitalizing the Nigerian economy.

To ensure meaningful progress, it is essential that the following reforms, some of which have already begun, be fully implemented within the first 100 days of the administration. By fully implementing these reforms within the first year of the administration, the Nigerian economy could make significant strides towards a brighter and more prosperous future. With strong political will and effective execution, these measures can positively impact the lives of the Nigerian people and position the nation for sustainable economic growth and development.

In addition, the current administration has highlighted fourteen (14) critical reforms in its Policy Advisory report as a glimpse into reform directions. These critical reforms are considerably holistic with implementation timelines while addressing crucial issues affecting economic growth and development of Nigeria. Based on the timeline for policy pronouncement and implementation, the proposed reforms are as mentioned below.

A. First 100 days of the Tinubu's administration.
These are reform decisions that are currently under implementation by the government. There are critical components of the President's campaign during electioneering process. Some of these policy decisions include elimination of fuel subsidy, exchange rates unification, address oil theft and pipeline vandalism, and establishment of a performance and delivery unit within the Presidency.

Figure 13: Political & Economic Ideologies of New Nigerian Government



	Economic Diversification: Prioritize and accelerate efforts to diversify the Nigerian economy away from heavy dependence on oil revenues. Promote and support non-oil sectors, such as agriculture, manufacturing, and technology, to foster sustainable economic growth and reduce vulnerability to global oil price fluctuations.
	Infrastructure Development: Execute a comprehensive infrastructure development plan to address critical deficiencies in transportation, power, water supply, and telecommunications. Upgrading and expanding infrastructure will boost productivity, attract investments, and improve overall economic competitiveness.
	Investment in Social Sector & Human Capital: Prioritize education, healthcare, and skills development initiatives to enhance the capacity and productivity of the Nigerian workforce. A well-educated and healthy population is crucial for sustainable economic growth and development.
	Security and Corruption: Address the security challenges in the country and intensify the fight against corruption. Ensuring a safe and stable environment is crucial for attracting investments and fostering economic development.
	Public-Private Partnerships: Foster collaborations with the private sector to leverage resources and expertise for infrastructure development and service delivery. Public-private partnerships can accelerate economic growth and create job opportunities.

B. Within First Two Years of the Administration (Short-Term). The current administration also highlights some critical policies for the short-term (1-2 years). These proposed policy reforms focused on optimisation of government assets, fiscal consolidation, and central bank's management rejuvenation. Amongst the proposed pathway include:

1. Rationalise selected government assets.
2. Optimise government's operating expenditure & reduce leakages.
3. Establish a coordinating body for fiscal and monetary policies.
4. Reform the operating model of the Central Bank of Nigeria (CBN).
5. Grow the non-oil export and contribution to the country's GDP.
6. Unlock the potential of the Solid Minerals sector.
7. Accelerate implementation of Nigeria's capital market masterplan.

C. Within Three-Four Years of the Administration (Medium-Term). These reforms are a combination of the overall policy thrust of the government for this current term of 4 years.

1.Tax reforms including restructuring and automating functions of key revenue agencies.
2. Transform Nigeria into Africa's most efficient trading hub.
3. Top investment destination among the MINT nations.

05 OUTLOOK DRIVERS FOR H2-2023

This section provides an assessment of the expected performance of the Nigerian economy for the latter part of 2023.

It examines the crucial events that will influence the projected outlook during this period and culminates in a revised projection for growth and other essential macroeconomic variables, based on NESG's Macroeconomic Outlook for 2023 titled: "Nigeria in Transition: Recipes for Shared Prosperity."

As we approach the latter half of 2023, the Nigerian economy is anticipated to experience various key events that will shape its trajectory. These events include the implementation of fiscal and monetary policies, advancements in the global economy, commodity price fluctuations, government initiatives, security measures, and potential structural reforms. The interplay of these factors will play a pivotal role in determining the overall economic performance.

The revision of NESG's projected figures for growth and other macroeconomic variables in Nigeria's economic outlook is likely to be influenced by these events. With the dynamics and uncertainty in the global economic landscape, projections for GDP growth, inflation rate, exchange rates, and fiscal deficits are subject to changes in response to emerging developments. Moreover, the successful implementation of government policies and structural reforms aimed at fostering economic diversification, investment promotion, and social development will be instrumental in steering the economy towards shared prosperity. Ensuring a stable and conducive business environment, with adequate infrastructure and policy support, will play a vital role in attracting both domestic and foreign investments.

However, it is essential to acknowledge that the Nigerian economy may face challenges and risks in the latter part of 2023, such as uncertainties in the global market, security concerns, fiscal constraints, and potential external shocks. Addressing these challenges and mitigating risks will be critical to sustaining economic growth and achieving shared prosperity for all Nigerians. The projected outlook for the Nigerian economy in the remaining part of 2023 is contingent upon various factors, events, and policy measures. A comprehensive approach, focused on fostering economic stability, promoting investments, and implementing prudent fiscal and monetary policies, is important in achieving the revised projections for growth and other macroeconomic variables.

A. REVISED MACROECONOMIC PROJECTIONS FOR NIGERIA IN 2023

The year 2023 in Nigeria comes with the peak of political climax with general election and transition to a new administration. With the conclusion of the 4-year election circle in first quarter of the year, the country's economic performance is affected by the usual political instability and policy uncertainties that greet this period and caused some adverse implications on performance of key macroeconomic and socio-economic indicators.

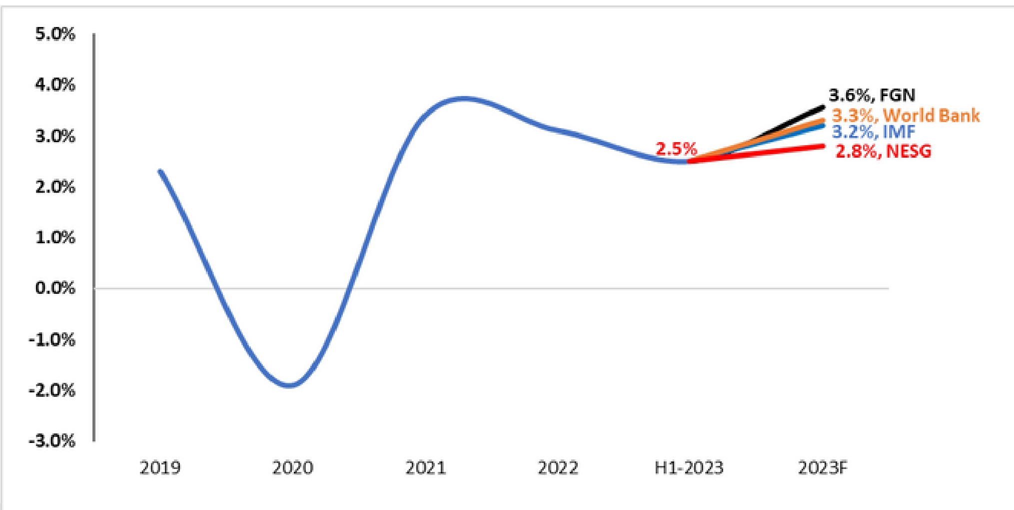
On the back of the foregoing and other external/global developments and domestic economic conditions, the macroeconomic projections made in the NESG's Macroeconomic Outlook 2023 will be adjusted to reflect current economic realities. In achieving this fate, key global developments including growth pattern, crude oil prices, and other factors that would shape the domestic economic environment are analyses alongside crucial internal events in Nigeria. This section provides the forecast of real GDP growth, inflation, foreign reserve, exchange rate and unemployment for H2-2023 and culminated to the level of performance for these indicators for full-year 2023 (FY'2023).

Rationale

The revised projection for 2023 assumes that crude oil price will average US$80/barrel. This assumption is informed by the effect of the Russia-Ukraine crisis on the energy market and higher crude oil demand due to improved industrial activities in advanced economies and emerging markets. The performance is higher than the US$70/barrel proposed in the 2023 budget. As efforts to contain crude oil theft in Nigeria intensify, crude oil production will average 1.5 million barrels per day (mbpd) in H2-2023. This represents an improvement over 1.15mbpd in 2022 but is 9.1 percent lower than the 2023 budgetary oil production of 1.69mbpd. There is also an anticipated improvement in government capital expenditure due to fuel subsidy removal and convergence of exchange rates and also increase the FGN budget implementation rate. Based on these assumptions, the outcomes are as follows:

RGDP growth is expected to moderate to 2.8 percent. Economic growth will be subdued in 2023 due to strains on consumer purchasing power and higher cost of operations which will adversely affect productivity in critical sectors.

Figure 15: Actual and Revised Projected Real GDP Grow th for 2 0 2 3



The services sector will sustain economic growth momentum in H2-2023 while a weaker growth performance in agriculture and industrial sectors. The oil sector will continue to drag the performance of the industrial sector but likely move out of recession in Q4- 2023. Economic growth will not be strong enough to generate significant increase in per capita income and jobs for Nigerians in 2023. As a result, the per capita income of average Nigerians will still stand around $2300 while the real per capita income will be lower than $1000.

Inflation rate projection has two scenarios of averaging 22.8 percent and 25.0 percent in 2023 for robust and poor implementation of current reforms respectively (See Figure 16). Inflationary pressure is expected to remain elevated due to immediate impacts of fuel subsidy removal and depreciation of Naira occasioned by the convergence of exchange rates. Existing structural, cost and monetary policy induced factors will significantly contribute to keeping the inflation rate high. However, the quality of implementation of current reforms by the new administration will significantly influence the rate of acceleration or deceleration of inflationary pressure in 2023. If these are properly implemented, average inflation rate is expected at 22.8 percent for the year. In the case of the opposite, inflation will close the year at 25.0 percent.

The unemployment rate will increase to all-time high with more people being pushed into the poverty bracket due to weak performance in the job-elastic sectors, low labour absorption of sectors that will drive growth, and higher population growth. High inflationary pressure will also erode purchasing power of households while businesses, especially MSMEs, will have no or limited capacity to create new jobs. The business community or private sector will focus on survival than expansion in H2-2023. Going by this situation, business will be forced to reduce workforce, which will heightens unemployment problem, or cut wages/salaries, and amplify poverty level.

Monetary policy tightening willcontinue till end of 2023, but rate of acceleration will slow-down. The CBN is expected to slow down its hawkish policy stance in H2-2023 to support economic growth while using other measures to rein in rising inflationary pressure in Nigeria.

Figure 16: Trend of Inflation in Nigeria (Percent)

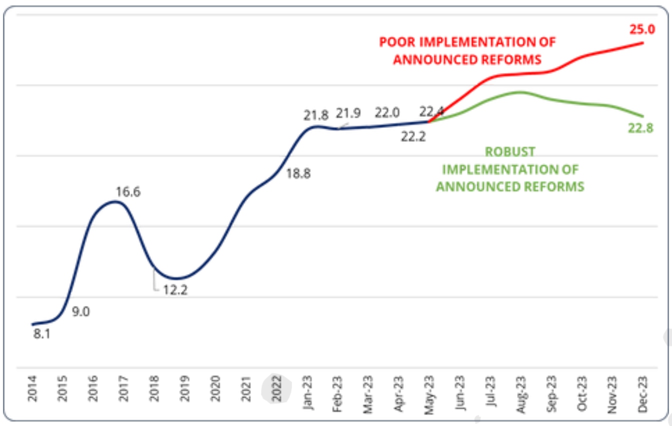
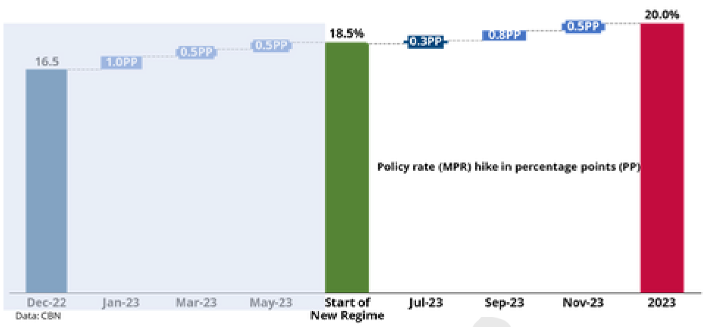


Figure 17: Monetary Policy Rate Outlook in Nigeria for 2023



06

POLICY RECOMMENDATIONS

The section provides short-term policy recommendations that could reduce the impacts of current economic challenges in Nigeria. For some of these policies, their implementation is a foundational step which requires subsequent policy follow-up in the next fiscal year – 2024.

As a result, the policy recommendations are structured to a particular issue of focus. For this report, the focus issues are

reducing inflationary pressure

&

supporting sectoral productivity growth.

- **Boosting agricultural productivity to reduce food import inflationary pressure.** Enhancing agricultural productivity to alleviate food import inflationary pressure requires the government to address key challenges. Foremost, tackling the insecurity issues prevalent in major food-producing regions is imperative. By providing adequate security measures, farmers can focus on their work without fear of disruption, leading to increased yields and a stable supply of food products. Moreover, an efficient and well-connected transport system is crucial to ensuring that agricultural produce can reach the market promptly and with minimal spoilage. Upgrading and maintaining roads and transportation infrastructure will facilitate the seamless movement of goods from farms to markets, reducing wastage and increasing the availability of food products at competitive prices.

- **Implementation of a coherent policy to govern the Central Bank's interventions in the foreign exchange market.** The Economic Management team of the Federal Government must achieve unanimity on supporting Forex market liquidity, among other essential measures. Such a coherent policy stance is paramount in enhancing investors' confidence, both from local and foreign stakeholders, in the country. In addition, a well- articulated policy governing the Central Bank's interventions in the foreign exchange market, backed by a unanimous stance from the Economic Management team, is pivotal in fostering investor confidence in Nigeria. This confidence will, in turn, attract more local and foreign investments, ultimately bolstering the nation's economic stability and growth.

reducing inflationary pressure

- **Supporting linkages among sectors for positive spillover of growth and productivity.** There is a need to kick-start an economic framework that links sectors with complementary activities in Nigeria. For example, through the development of appropriate pricing for agricultural products to keep farmers' incomes stable and quality output, since Agricultural sector supplies its output as industrial inputs for the Manufacturing sector. Similar sector-level interaction must also be activated between industrial and services as well as services and agriculture.

- **Develop tailor-made finance and competitive grants to support innovative development and start-up of nascent industrial and manufacturing enterprises.** Sectors that are fundamental to economic growth must be supported with the required capital outlay for production and expansion. This strategy is important to support local productivity and reduce the country's reliance on imports for manufactured goods.

- **Set up a home-grown quality control system to ensure that Nigerian-made products become attractive to foreign buyers.** This will help boost forex earnings from non-oil export commodities. In addition, this will provide adequate incentives such as affordable credit facilities to manufacturers to facilitate mass production of exportable commodities.

supporting sectoral productivity growth.

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

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

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