

# Executive **Summary.**

Nigeria's 2024 Economic Outlook Report:  
**Creating Hope by Numbers and Strategies.**



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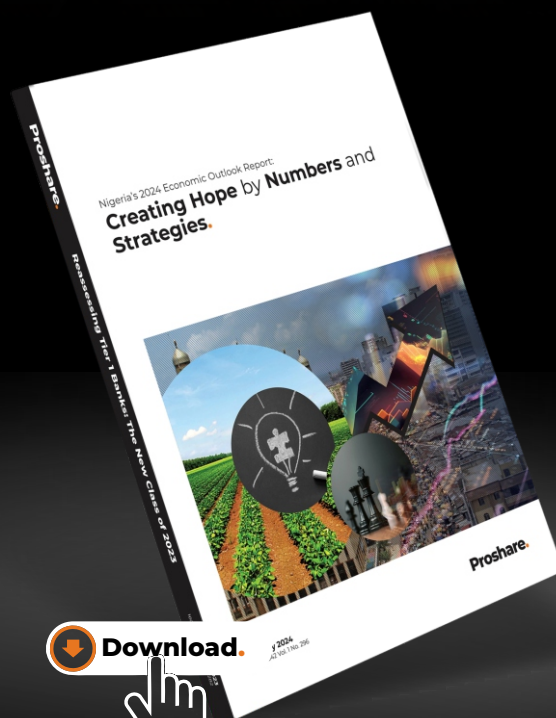


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## What the **Report** Covered.

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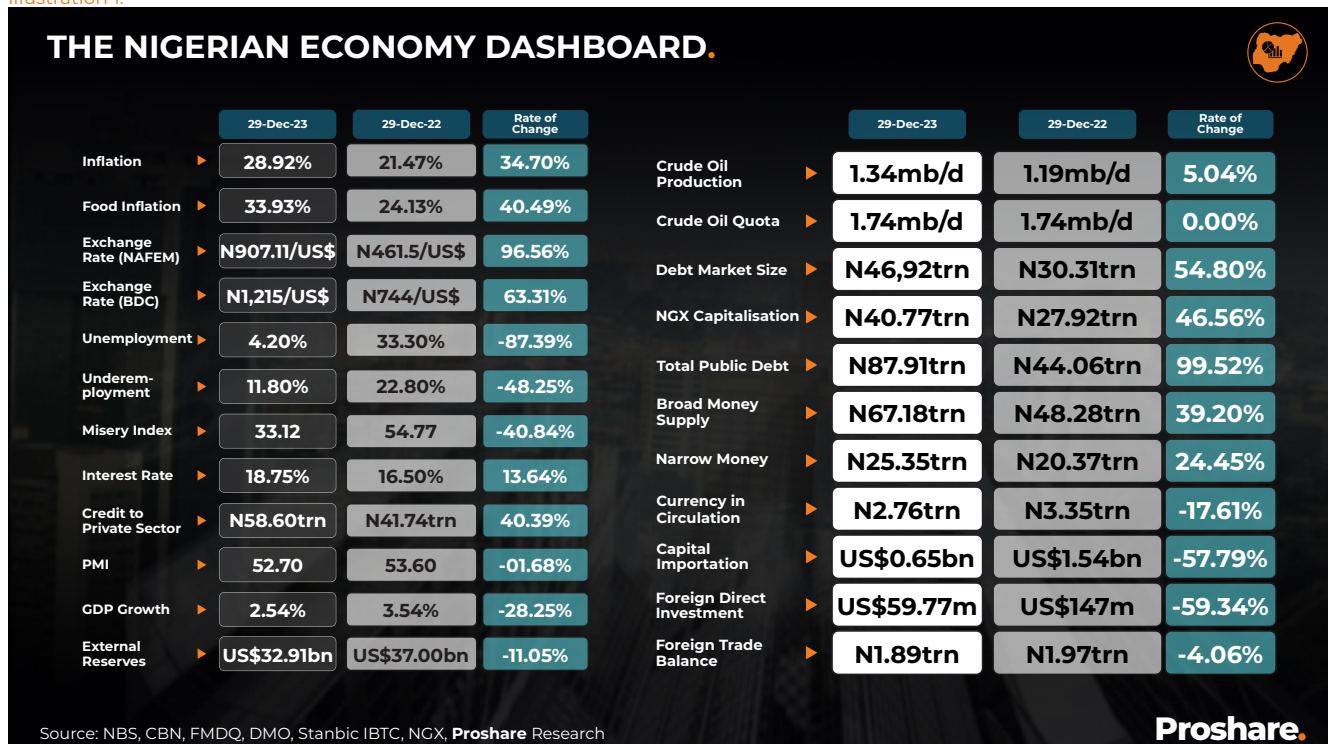


## Executive Summary.

2023 was a crisis in a storm. The year started off with Nigerians struggling to find cash as the Central Bank of Nigeria's (CBN's) cash redesign policy threw everyone under the bus, as cash scarcity resulted in mindless profiteering as consumers used local cash to buy cash, which was an anomaly of historic proportions. At some stage, there was a discount of 20% on the face value of every note obtained from point of sale (POS) cash providers who allegedly conspired with bank officers to make a killing, both figuratively and literally. Nigerians found themselves in the iron grip of a cash cartel. According to Dr Ayo Teriba, chief executive officer (CEO) of Economic Associates (EA), *'We reached a point where policy seemed to have stood logic on its head. The reason money is printed is for use in commercial exchange. A currency is a promise by the government to pay on demand a sum identified as the face value of the currency. Depriving people of the use of their money or currency defies reason and is a terrible way to simulate monetary policy action'*. He noted that resolving a headache by *'taking off your head'* is unintelligent.

The cash redesign policy stirred the economic hornet's nest at the beginning of the previous year, but other changes, such as removing the petrol subsidy in the first week of June and the liberalization of the foreign exchange market on June 14, 2023, kicked consumers in the gut. The combined impact of the policies sent the domestic inflation rate soaring. The year ended with a headline inflation rate of 28.2% in November 2023 and GDP growth at 2.54% as of Q3. In other words, was a tough year for the Nigerian household, and 2024 might not be different. (see illustration 1).

Illustration 1:





Key considerations for 2024 may include, but may not be limited to, the following:

- ❶ Domestic Inflation will remain high in Q1 2024 because improving Nigeria's foreign currency reserve will take some time.
- ❷ Domestic supply chain difficulties, especially those caused by insecurity and the poor state of roads, would keep domestic food inflation high; in November 2023, food inflation was 32.94%.
- ❸ Falling average consumer real purchasing power will mean lower sales volumes for manufacturers. However, gross sales figures may rise because of rising sales prices. The problem here would be that consumers are trading down or revising consumption portfolios to lower their monthly outlays as effective spending power shrinks. For example, individuals who cut their hair weekly have resorted to shaving it every fortnight. Consumers have removed items from their regular shopping lists, including going for less recognized or popular product brands. Sometimes, families have adjusted meals thrice to twice a day. A combination of these factors would hurt manufacturers' sales volumes or retailers' sales.
- ❹ Labour would be on the grill in 2024 as companies search to optimize skills and talents. Entry-level workers will find jobs harder to get, while workers with some experience will be made to scale efforts to improve efficiency and productivity as more back-office jobs get replaced by Artificial Intelligence (AI). In the banking sector, 60,000 jobs were lost in the United States of America (USA) in 2023. In Nigeria, a similar phenomenon had started in Q4. In 2024, more banks will depend on technology and less human engagement.  
The fast-moving consumer goods (FMCG) sector will remain under pressure in Q1 2024 as the foreign exchange rate stays around N1,000/US\$ as the Bureau D' Change (BDC) rate and the official market rate struggle for convergence. An appreciation could occur in Q2 as the federal government works out ways to increase the country's foreign reserves and pays off forward contract backlogs. Until the exchange rate appreciates, packaged consumer goods will remain relatively costly, and households must rebalance their budgets. In the broad scheme of things, FMCGs will take a hit as consumers try to find stability amid uncertainty.
- ❺ Nigeria's capital market whizzed like Christmas fireworks as the NGX All Shares Index rocketed up by 45.90%, and the Banking Index shot through the troposphere at 114.90%, while the growth Index went into the stratosphere at 250.29%. The Oil and Gas sector bested the Banking Index by rising 125.54%. Will there be an encore in 2024? Maybe not. The Banking sector will show rigour, but with higher equity capital requirements (CET 1), earnings per share (EPS) may fall, and dividend yields may dip, leading to a fall in their listed equity prices.  
In other words, the banking sector will show strong earnings performance in 2024, but earnings per share (EPS) may drop on higher capitalization, and dividends per share (DPS) may also fall despite a constant payout ratio. A lot will depend on economic growth (projected at 2.9% for 2024) and inflation rate (the average headline inflation rate may decline modestly from 24% in 2023 to 22% in 2024). However, the combination of monetary and fiscal policy and non-conventional fiscal manoeuvres would shape the pace of economic growth and inflation containment in 2024. Teriba believes the *'financialization of idle public assets would ease the liquidity constraints bedevilling the economy and create room for the government to deal with the exchange rate challenge that feeds into rising domestic inflation'*.
- ❻ Proshare analysts argue that monetary policy tightness through inflation targeting would be ineffective in the new year. Economists like Dr Tilewa Adebajo believe interest rates must rise quickly to cool inflation and stimulate growth, a position shared by Khaleefa Mohammadu Sanusi



II, a former Central Bank of Nigeria (CBN) Governor. However, the problem with the suggestion is that the CBN has consistently raised its monetary policy rate (MPR) over the last two years from 11.5% at the beginning of 2022 to its recent 18.75% in 2023. Despite the steady increase in the MPR, inflation rates have risen persistently. The reason is not wrapped in a magician's dark cloak but in Nigeria's economic structure and the effectiveness of the CBN's monetary policy channels. Foreign exchange rates have a stronger influence over inflation rates than interest rates. Proshare analysts believe that to drag the inflation rate down, the government needs to resolve the FX liquidity challenge rather than focus on inflation targeting, as would be the argument of Stanley Fischer, a Nobel prize-winning Economist. For example, higher interest rates would not significantly hurt real estate activities in Nigeria because the mortgage market is thin. Unlike the vibrant mortgage markets in the USA, UK, China, Canada, and India, most Nigerians buy houses on a cash-and-carry basis. Adebajo, however, insists that *'You need to increase interest rates in the short run to reduce inflation and stimulate growth. Research in Nigeria shows a direct correlation between low inflation and high growth.'* Will Nigeria have a low average inflation rate and a high growth rate in 2024? Certainly, in the land of dreams and aspirations, but in what Economist Peter Donaldson called the 'Economics of the Real World,' it will not happen.

**Section 1** of the Outlook introduces key global considerations that markets and analysts must consider in 2024 based on trend data ending in 2023. It reviews the geoeconomic fragmentation and geopolitical tensions in 2023 that sent shock waves into the different global economies. The impacts of the shocks and their spillover effects in 2024 were explained in summary to provide a settled context for consideration of the consequences of global sociopolitical and economic shifts on the Nigerian economy.

**Section 2** of the Economic Outlook addresses global economic conditions and outlook for 2024. Inflation rates will be expected to fall in the United States of America (USA), the United Kingdom (UK), Germany, France, and Italy while China would also see inflation moderate, even though it has always been low. Slower-than-historical GDP growth in China reflects an economy coming out of a post-COVID-19 lull. China is expected to grow at roughly 4.5% in 2024, while its neighbour, India, is projected to grow at 6.3%. Global growth will slow down in 2024 as inflation falls. However, some analysts argue that the lazy global GDP growth numbers in 2024 would reverse in 2025 as the global real sector experiences a boost from rising global real disposable income. Analysts project a synchronised loosening of monetary policy in major economies in 2024, lowering interest rates and spurring increased spending. Emerging Markets may see different outcomes.

In **Section 3**, the analysts looked at African economies and identified some head and tailwinds. The performance of sub-Saharan economies will remain mixed in 2023. Regarding African currencies, the Nigerian Naira and the Angolan Kwanza will stabilise. The Naira has seen large volatility since June 2023, while the Bureau D' Change (BDC) market has shown relative stability. The official market volatility reflects FX market illiquidity. Improved dollar supply to the market in 2024 should reduce market fluctuation and temper domestic headline inflation, but this may not occur until Q3 2024. Other African economies have different likely outcomes. As with Ghana, debt restructuring should improve investor sentiments, with analysts forecasting a 3.6% gain in the Cedi by Q4 2024; the Zambian Kwacha is expected to rise against the dollar by 4.3% over the same period. Most other Sub-Saharan economies will see exchange rate appreciation but not as strong as Ghana and Zambia.

South Africa's serial power outages severely strained the economy in 2023, seeing the Rand (ZAR) weaken by 10.7% by November 2023 made worse by worsening terms of trade (ToT) and adverse investor sentiments. Proshare analysts did not see a near-term reversal of the trend and expect that the ZAR would decline a further 10% in 2024 as the country sorts out its power situation and investors rebuild confidence.



**Section 4** of the report does a deep dive into Nigeria. President Bola Tinubu's administration was swift in taking bold economic decisions regarding petrol and foreign exchange market (FX) subsidy removals but has not been able to push beyond these actions, which require a **whole-of-government approach** to make them meaningful and enduring. Fragmented policies that do not tie into a comprehensive market-oriented economic thrust inflict pain without reward or gain. In 2023, the Naira was devalued by 46%, and while the currency could see a mild reversal, the consensus opinion is that the local currency will be lower for longer.

Inflation remains the economy's principal bogey, but little can be done without improving FX liquidity. The CBN will contain money supply growth and probably raise nominal interest rates, but a blunt knife cuts no fodder. High-interest rates will not do the job of slashing towering inflation to size. According to Teriba of Economic Associates, *'We must insert the liquidity key to unlock the door to non-inflationary growth'*. Teriba insists that Nigeria's macroeconomic challenge is not insolvency but illiquidity, and rather than focus on the country's revenue and expenditure account, our policymakers should take advantage of the country's large balance sheet size or asset base to create FX liquidity. According to the Economist, *'If we can liberate the intrinsic values of idle public assets such as military barracks in high-net-worth environments such as Victoria Island, Lagos, and adopt a build operate and transfer (BOT) framework for the partial privatisation of federal assets such as the National Stadium and National Arts Theatre in Surulere Lagos, and the Federal Secretariat, Ikoyi, and such sundry assets across the country, we can jumpstart growth by jumping over our financial creativity barrier'*.

To a certain extent, it appears that the FGN has bought into Teriba's idea and is compiling a schedule of federal assets, but both Teriba and Proshare analysts believe that the FGN should immediately commence a **deal room** where investors can bid for assets and acquire long-term rights-of-use under Build, Operate, and Transfer (BOT) arrangements, Build, Operate, and Own (BOO) frameworks or Build, Operate, Own, and Transfer (BOOT) plans. The asset enumeration could come later and be added to assets not advertised for urgent private interventions. The early deal room trades would serve as **sandboxes** for improving deals on idle federal assets. The price discovery and asset sales process will evolve, and the learning opportunities will allow for upgrades in handling the privatization and financialization of national assets.

In **Section 5**, the analysts review the government's economic agenda and its 'Renewed Hope' mantra against the backdrop of national economic data and socioeconomic realities. In the review process, the analysts introduce two key concepts that clarify the nature and challenges of the government's policy thrusts. The notion of highlighting the existence of a **'decagon of power'** in the governance architecture of the administration. Layered over the policy implementation power balance, the analysts observed a **'macroeconomic trilemma or impossible trinity.'** The decagon of power reflects those combinations of Ministries which could collectively lift the economy out of its recessed situation to a path of sustained growth above 6% per annum over the next decade. The Ministries and their synchronized policies would reduce domestic inflation and shift GDP into its fourth and fifth gears (see illustration 2).



Illustration 2:

## THE "IMPOSSIBLE TRINITY".

- ① The trilemma is an economic theory, which posits that countries may choose from three options when making fundamental decisions about their international monetary policy agreements.
- ② However, only one option of the trilemma is achievable at a given time, as the three options of the trilemma are mutually exclusive.
- ③ Today, most countries favor free flow of capital and autonomous monetary policy.

Source: Investopedia, Proshare Research

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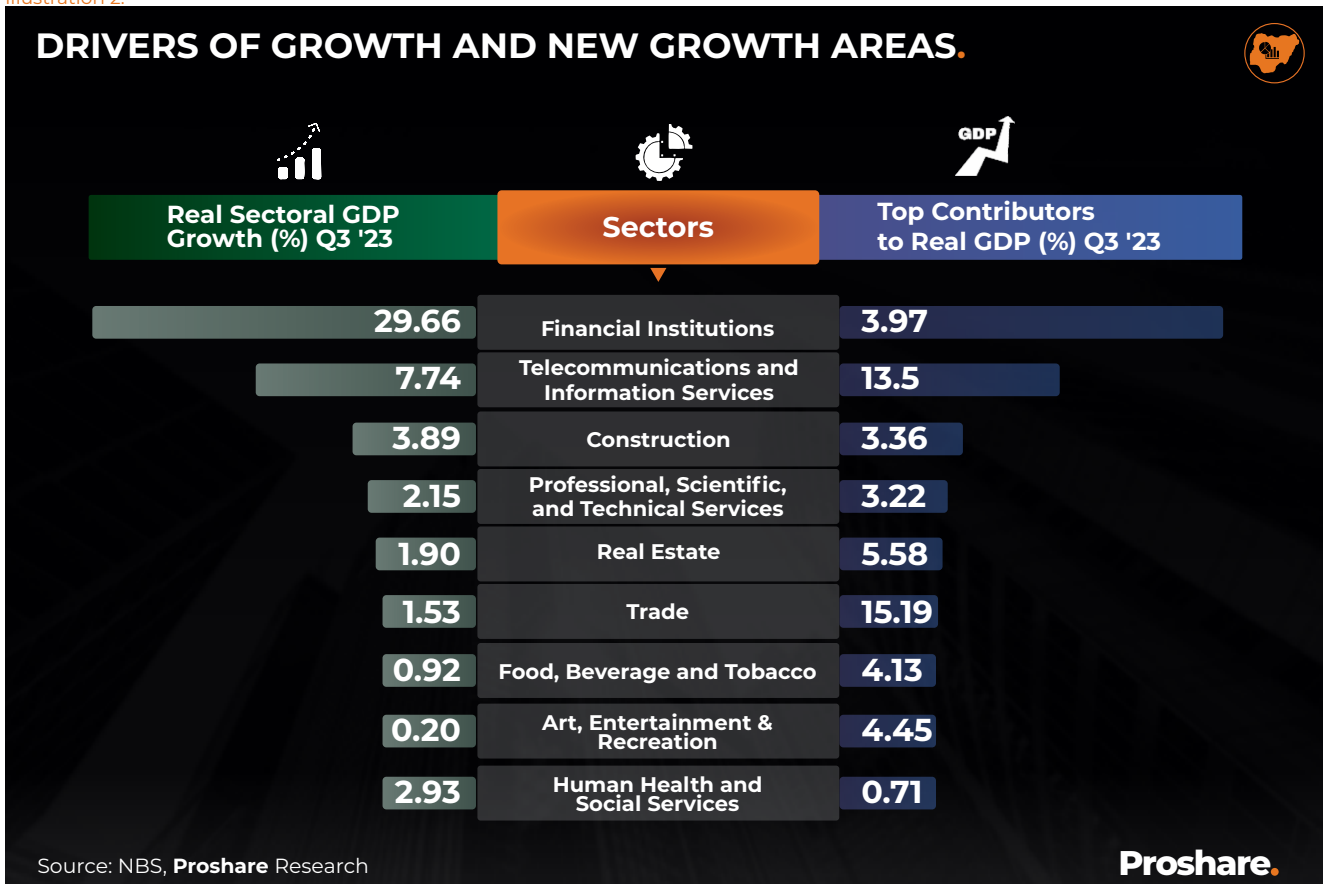
The macroeconomic trilemma addresses the conflict between handling inflation, resolving the persistent exchange rate depreciation, and coping with growth. Only two of the problems can be settled with two policy tools (monetary policy and fiscal policy), leaving the third challenge in search of a policy tool. Proshare analysts point out that this is where prioritization takes over. Should the government target inflation and unemployment or tackle the FX liquidity problem? Proshare analysts, after reviewing the in-house macroeconomic model, have chosen the FX liquidity route. The model shows that roughly 70% of domestic inflation can be attributed to the foreign exchange rate. However, resolving the FX rate would reduce inflation without the interest rate constraints that could drag back growth; admittedly, the framework is not the Fischer perspective, but in the face of the peculiarity of Nigeria's economic structure and our panel econometric framework (a stylized model of the economy) explains a policy approach that prioritizes FX liquidity.

**Section 6** provides a set of scenarios that explain the various economic possibilities in 2024. From exchange rate impact to monetary tightening and fiscal loosening, the possible outcomes are explained to provide corporate and public policy guidance.

**Section 7** addresses the likely remodeled corporate fortunes of prominent firms on the listed (NGX) and unlisted (NASD) securities markets. Corporations will find themselves in a pickle depending on the industrial sector they belong in 2024. FMCGs will see rising consumer resistance as higher taxes and/or levies push retail prices up. Higher prices will be met by '*satchetization*' of products or down trading with brand loyalty dismantled as consumers care only about availability at affordable price rather than product brand name. In response known brands appear to have taken to '*shrinkflation*' or packaging products in smaller and more pocket-friendly containers. The banking sector would prove resilient, but Tier 2 and Tier 3 banks will be roiled by consumers becoming more selective and price sensitive, Tier 1 banks will enjoy the benefits of the perceived flight to safety as customers become willing to take lower interest rates on deposits in exchange for safety. The building materials sector will continue to see growth as incomes from entertainment and services will distil into the property market as top artists, consultants, or successful fintech startups invest in properties to enable them inflation-index their assets. The property market has served as an inflation-protection haven for film and music professionals (*see illustration 3*).



Illustration 2:



The last section, **Section 8** of the report, gives a brief overview of the distilled data-based lessons from the report's findings. It notes that 2024 will be characterized by volatility, uncertainty, complexity, and ambiguity (VUCA) like 2023 and that countries comparable to Nigeria will have to pass through a raging furnace of macroeconomic challenges to improve their overall economic wellbeing. The Nigerian authorities would need a mindset shift. They would have to turn their focus on the national **balance sheet** rather than the national **income statement**. This means that policymakers would need to see how FX liquidity and public revenue can be improved by the clever sale or lease of idle public assets. As important as taxes are to fund budgets, at a time of slow economic growth there is little room to increase taxes without hurting production and consumption incentives. In other words, this is no time for the old tax and spend ritual. If Nigeria is to punch its way out of a tight economic corner, it needs to use its assets, literally.

'**Shrinkflation**' or the reduction in commodity sizes at old prices to stay in business is now a thing in African and Nigerian retail markets reflecting a gradual decline in consumer spending power, and the struggles of traders to keep shops open. With roughly 40m small and medium-sized enterprises (SMEs) accounting for over half of Nigeria's gross domestic product (GDP), the government needs to act fast to reduce inflation and support growth. The conventional policy tools would require a tradeoff. To avoid this Proshare economists argue the need for the urgent creation of **deal rooms** by the Ministry of Finance Incorporate (MoFI) and the Bureau of Public Enterprise (BPE) to sell at least ten major idle public assets in 2024.

The report authors also highlighted a subtle yet important trend in medical tourism. They observed that patients from countries like Canada and those in western Europe have begun to see Nigeria as a





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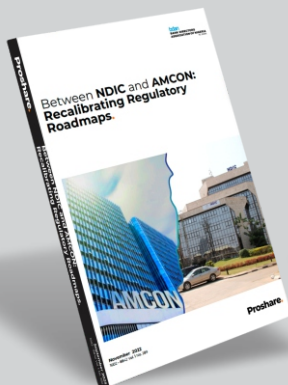
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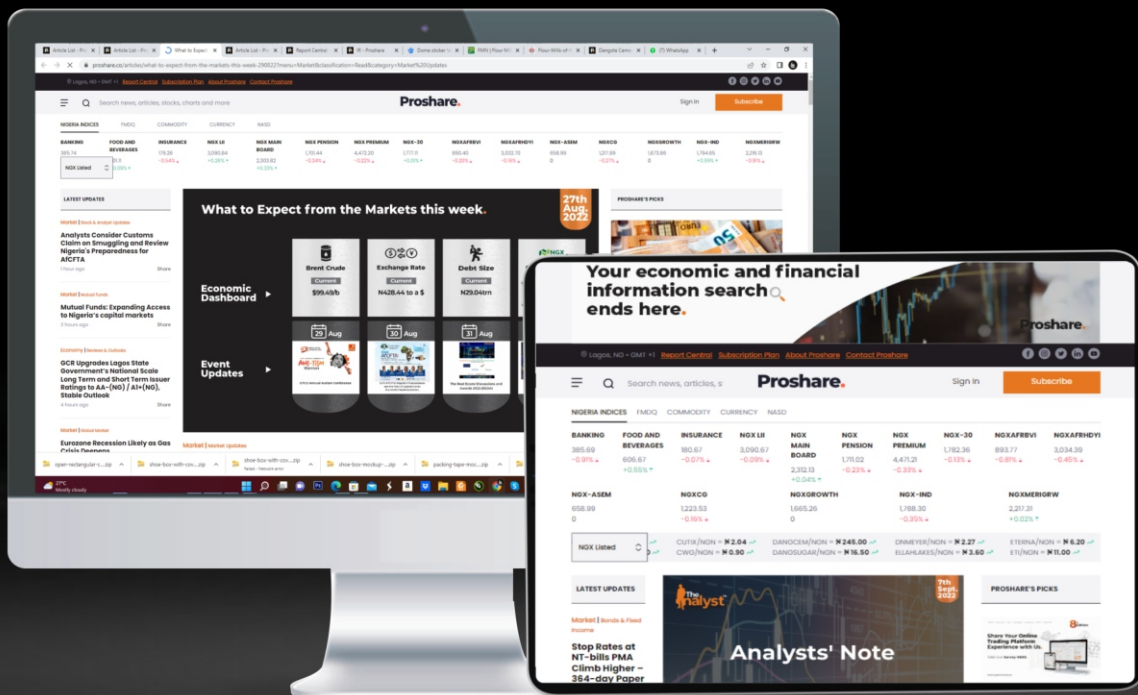
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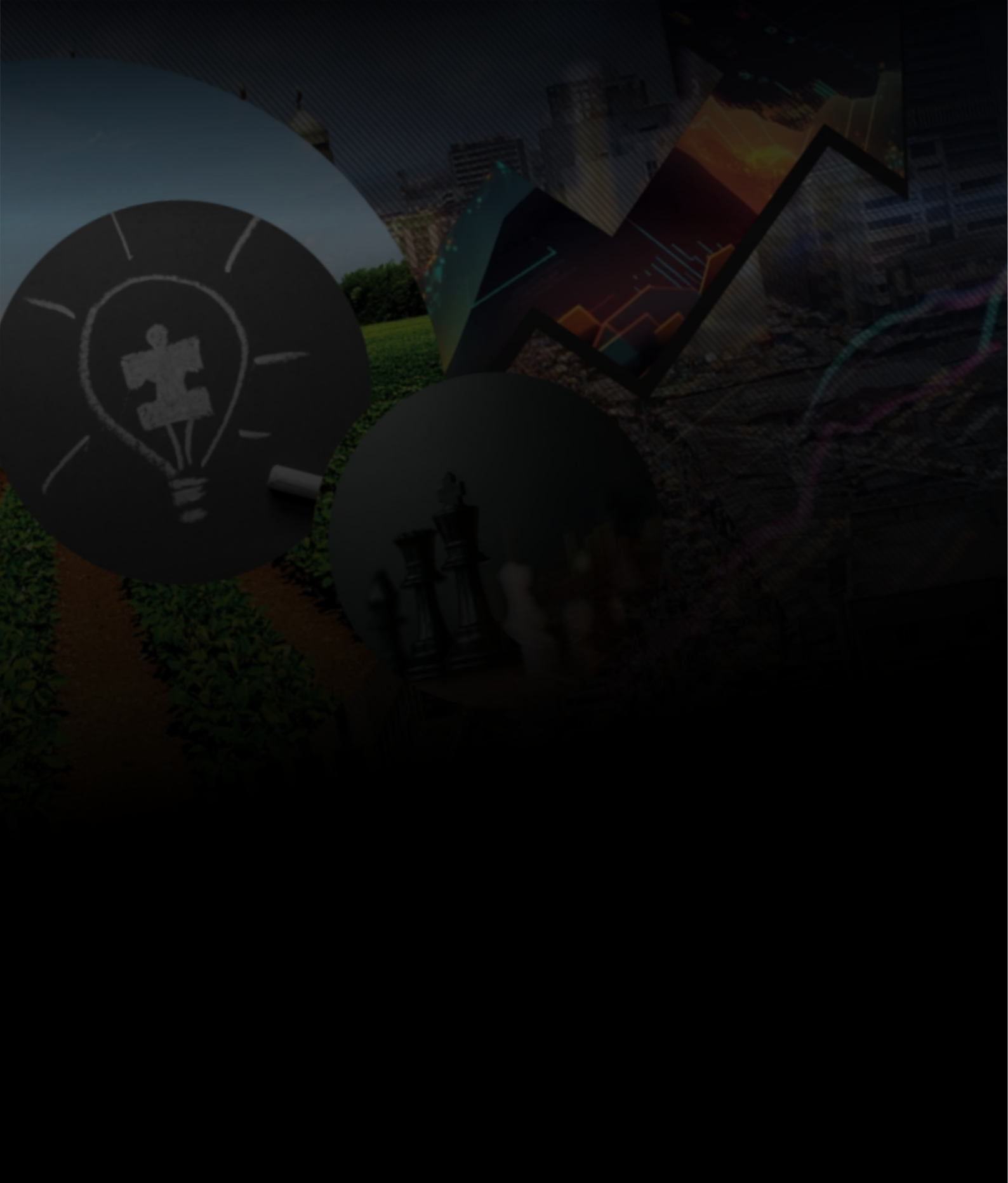
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