2025 H1

State of the Economy

Staying the Course on Reforms: Turning Economic Gains into Social Progress

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INTRODUCTION

In the first half of 2025 (2025H1), the Nigerian economy experienced modest growth amidst global recession concerns and trade tensions, with performance shaped by monetary tightening, divergent growth trajectories, and geopolitical uncertainties. While developed economies generally experienced economic growth rates below 2 percent (except the United States at 2.0 percent), China's economy expanded by 5.3 percent. Global inflation showed signs of a gradual slowdown, and advanced economies experienced stabilisation due to monetary tightening and easing supply chain bottlenecks, leading central banks to hold interest rates steady. However, many emerging economies, including Nigeria, continued to grapple with elevated price pressures. Global stock markets rebounded strongly, with emerging markets leading the gains.

Despite some favourable macroeconomic outcomes, Nigeria's vulnerability to external shocks, such as volatile oil prices and global trade disruptions, was reinforced in 2025H1. The sharp swings in oil prices and OPEC+ quota constraints strained fiscal revenues and widened the budget deficit. The Nigerian economy expanded by 3.1 percent in 2025Q1, with the non-oil sector as the primary growth driver. While inflation eased, post-CPI rebasing, headline and core inflation remained high. Monetary tightening in 2024 led to a significant credit squeeze in 2025H1, with private sector credit growth plunging to 2.8 percent. The Nigerian Exchange (NGX) All-Share Index (ASI) saw a significant increase, though foreign portfolio investors dominated market participation. Fiscal challenges persisted, with government revenue underperforming budgetary estimates and public debt reaching a record high. Despite modest growth in external reserves, rising debt-servicing costs and weaker oil export inflows continued to exert pressure.

The economic reforms initiated in 2023, including the removal of fuel subsidies and the liberalisation of the foreign exchange market, were critical for macroeconomic stability but also generated significant short-term socio-economic challenges. Households faced escalating inflation and eroded purchasing power, driven by increased transportation and food costs. Businesses experienced constrained operating environments due to increased costs from exchange rate depreciation, fuel subsidy removal, and electricity market liberalisation. This challenging environment led to company exits and a credit crunch for Micro, Small, and Medium Enterprises (MSMEs).

While the government has implemented mitigation strategies, issues of delayed execution and poor targeting have undermined their effectiveness. For instance, the cash transfer programme only reached less than half of its intended beneficiaries. Efforts to support businesses, primarily focused on credit access, often overlook broader structural and environmental barriers such as unreliable electricity, poor road infrastructure, insecurity, and burdensome taxation.

To effectively translate economic gains into social progress, Nigeria needs a multi-pronged, coordinated, and transparent strategy that balances immediate relief measures with long-term economic and structural transformation. This involves strengthening social protection and direct household support through expanded cash transfer programmes, targeted food security interventions, and investments in essential public services like health and education. Furthermore, supporting business continuity and growth requires measures to stabilise the currency, improve foreign exchange access, provide targeted financial support and de-risking mechanisms for MSMEs, improve critical infrastructure, reduce operating costs, and streamline regulatory frameworks and tax policies. Finally, fostering sectoral productivity and job creation necessitates strategies for formalising the informal sector, implementing robust active labour market policies (ALMPs), and creating an enabling environment for private sector-led job growth. These comprehensive efforts are crucial for ensuring that economic gains are broad-based and lead to tangible improvements in the living standards of Nigerians.

OVERVIEW OF THE GLOBAL ECONOMY

The global economy experienced tepid growth in the first half of 2025 (2025H1), amid heightened recession concerns and escalating trade tensions. Overall, global economic performance was mixed, shaped by the lingering effects of earlier monetary tightening, divergent growth trajectories among economies, and persistent geopolitical uncertainties. Among developed economies, growth generally remained below 2 percent, except for the United States, which recorded an average growth rate of 2.0 percent (see Table 1). In the United Kingdom, modest growth was supported by a resilient services sector, which helped to ease inflationary pressures and contributed to rising wage levels.

In the emerging markets, China's economy expanded by 5.3 percent in 2025H1, its strongest performance since 2023H1. This acceleration was primarily driven by improved industrial output, robust retail sales, and sustained momentum from ongoing fiscal and monetary stimulus measures.

Table 1: Trend of GDP Growth in Some Selected Countries (year-on-year, Percent)

Country	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1	2025Q2
United Kingdom	0.3	1.1	1.2	1.5	1.3	
Euro Area	0.4	0.6	0.9	1.2	1.5	1.4
United States	1.3	3.0	2.7	2.5	2.0	2.0
Germany	0.9	-0.2	-0.3	-0.2	0.0	0.4
France	1.1	1.0	1.1	0.6	0.6	0.7
China	5.3	4.7	4.6	5.4	5.4	5.2
Japan	-2.1	3.2	1.4	2.4	-0.2	

N:B Japan's Figure is the quarterly annualised Figure. **Source: Trading Economics|OECD data explorer, Quarterly real GDP growth of G7**

Global inflation showed signs of a gradual slowdown in the first half of 2025, although commodity prices remained persistently high. Across advanced economies, inflation continued to stabilise, and sometimes even undershot expectations. This disinflationary trend was primarily driven by the lagged effects of previous monetary tightening, easing global supply chain bottlenecks, and subdued energy prices. In response, central banks in major developed countries, including the U.S. Federal Reserve and the European Central Bank (ECB), held interest rates steady during 2025H1, signalling a cautiously optimistic stance towards achieving sustained price stability. Despite the moderation in headline inflation, a divergence emerged between advanced and emerging economies. While global core inflation eased to below 3 percent during the review period (OECD, 2025), many emerging economies continued to grapple with elevated price pressures due to currency depreciation, fiscal imbalances, and lingering supply-side constraints (see Table 2).

Table 2: Trend of Headline and Core Inflation in Some Selected Countries (Percent)

Country	Headline		Core	
	2024H1	2025H1	2024H1	2025H1
United Kingdom	2.8	3.2	4.1	3.6
Euro Area	2.6	2.2	3.0	2.5
United States	3.3	2.6	3.6	3.0
Germany	2.4	2.2	3.2	2.8
France	2.5	1.0	2.2	1.3
China	0.1	-0.1	0.7	0.5
Japan	2.6	3.6	2.5	3.3

Source: Trading Economics

According to the World Bank's Commodity Price Index Data, the global non-energy commodity price index rose by 3.5 percent year-on-year (y/y) in 2025H1. In contrast, the energy price index declined by 9.9 percent y/y, primarily due to a steep fall in global oil prices. This decline was driven by a combination of increased oil supply by OPEC and muted global demand, following the universal baseline tariff introduced by the U.S. government. Consequently, the average global oil price fell to US$71.1 per barrel in 2025H1, down from US$84.0 per barrel in the same period of 2024 (World Bank, 2025). However, recent geopolitical tensions in the Middle East and signs of easing trade friction have contributed to a modest recovery in oil prices toward the end of the review period.

Global stock markets rebounded strongly in 2025H1, led predominantly by emerging markets. The MSCI Emerging Markets Index recorded a substantial gain of 15.3 percent over the six months ending June 30, 2025. This outpaced the performance of the MSCI World Index, which rose by 9.5 percent, and the MSCI Advanced Economies Index, which gained 10.1 percent over the same period (see Figure 1).

Figure 1: Cumulative Index Performance (June 2010-June 2025)

Source: MSCI Inc. (2025)

The rally in emerging markets was fueled by robust investment inflows, a weaker U.S. dollar, and renewed optimism surrounding the easing of U.S.-China trade tensions. Leading the surge were:

- **China:** +17percent in 2025H1, supported by early-year recovery momentum.
- **South Korea:** +33percent in Q2, driven by a tech-sector revival.
- **Taiwan:** +26percent in 2025Q2, also benefiting from industrial-tech resurgence.
- **Latin America:** Brazil (+14percent) and Mexico (+9percent) recorded notable gains in 2025Q1.

However, India underperformed, reflecting a relative slowdown in GDP growth during the period.
The upbeat equity market performance reflects growing investor confidence in emerging economies' resilience and recovery potential, even amid broader global uncertainties.

Implications for Nigeria's Economy

The first half of 2025 reinforced Nigeria's vulnerability to global headwinds, including external demand shocks, volatile commodity prices, and tightened financial conditions. The sharp swings in global oil prices, combined with OPEC+ quota constraints, strained fiscal revenues and widened the budget deficit, as actual oil prices lagged the government's 2025 budget benchmark of US$75 per barrel. Meanwhile, the global tariff war disrupted trade flows and weakened investor sentiment, translating into softer export demand and more cautious capital inflows for Nigeria.

As major central banks held rates steady after a prolonged period of tightening, Nigeria faced continued pressure on its exchange rate and external reserves, with limited room for monetary easing. These dynamics underscore an urgent need for Nigeria to fast-track structural reforms, including diversifying exports beyond crude, unlocking growth in agriculture and manufacturing, and deepening regional integration through the African Continental Free Trade Area (AfCFTA) to buffer against external shocks and rebuild economic resilience.

Snapshot – 2025 Tariff War: Timeline & Effects

Date	Event / Policy Action	Details	Impact / Outcome
Feb 1, 2025	U.S. imposes tariffs on Mexico and Canada	25 percent tariffs on all imports; Canadian energy is taxed at 10percent, while Mexican energy is taxed at 25 percent.	Immediate tension with USMCA partners; risk to North American supply chains.
Feb–Mar 2025	Broad U.S. tariff announcements (Liberation Day package)	Global baseline tariff at 10percent; targeted tariffs range from 15percent to 50percent; nearly 71 percent of U.S. imports are affected.	Surge in global policy uncertainty; widespread backlash and retaliation planning.
April 2025	China retaliates	Imposes 34–125 percent tariffs on U.S. goods; suspends rare earth exports; tightens rules on U.S. firms.	Sharp drop in U.S.–China trade; commodity markets and tech sectors hit.
May 2025	U.S. escalates tariffs on China to 145 percent	Peak tariff rate amid rising tensions; goods covered include electronics, steel, and textiles.	IMF downgrades global growth forecast by 0.8 percentage points.
June 2025	Initial truce talks & partial deal	The U.S. lowers its tariffs on China to 30 percent, while China lowers its tariffs to 10 percent; rare-earth exports resume; and the U.S. reduces the de minimis tariff to 54 percent.	Slight recovery in investor sentiment; trade volumes remain disrupted.

THE NIGERIAN
ECONOMY IN
2025H1

This section presents an analysis of the performance of the core components of the Nigerian economy in the first six months of 2025. The analysed components include the Real Sector, Monetary Sector, Fiscal Sector Performance and External Sector.

A. REAL SECTOR ANALYSIS

GDP rebasing offered a mild relief, but not enough to sustain growth momentum. The Nigerian economy expanded by 3.1 percent in the first quarter of 2025, compared with a growth of 2.3 percent and 3.8 percent recorded in the corresponding period of 2024 and fourth quarter of 2024, respectively (see Figure 2). The economy received some boost from the improved performance of key business activities, including Other Mining, Electricity supply, Water supply, Construction, Transport, Financial & Insurance, and Information and Communications Technology (ICT).

Nonetheless, the pickup in private sector activity in 2025Q2 signalled improved economic growth in the period. CBN's Purchasing Manager Index (PMI) and NESG-Stanbic IBTC Business Confidence Monitor (BCM) remained in the expansion region at 52.8 points and 111.9 points in 2025Q2, respectively. These performances are significantly higher than their level in the same period of 2024. Cumulatively, the economy in 2025H1 is expected to perform higher than 2024H1 (see Figure 3).

Figure 2: Nigeria's GDP Growth (Year-on-Year, Percent)

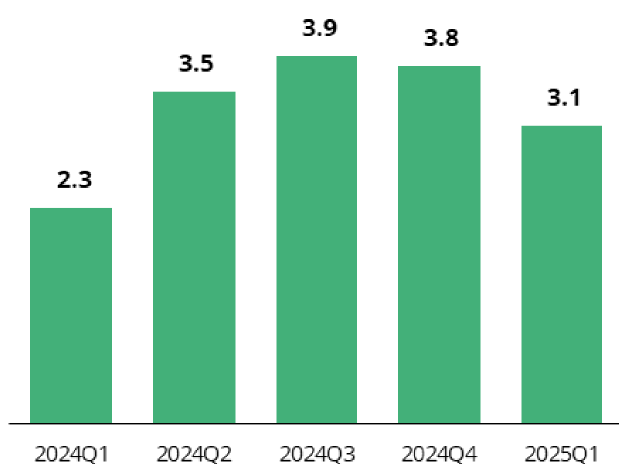
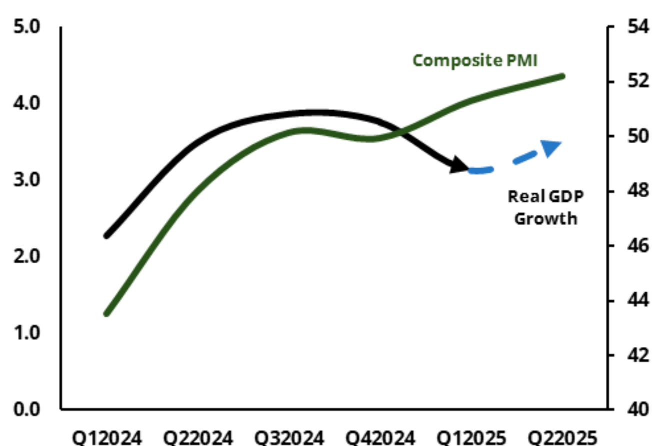


Figure 3: Nigeria's Purchasing Managers Index (points)



Data: NBS, CBN; Chart: NESG Research

Notably, the recent rebasing has increased the number of sectors with significant growth compared to the pre-rebasing period, partly due to the improved capture of informal sector activities. Sector with growth rate above 5 percent are categorised as Growth Drivers. Eight (8) sectors, including Other Mining, Electricity Supply, Finance & Insurance, Transport, Arts & Entertainment, Water Supply, Information & Communication Technology (ICT), and Construction, fell within this group in 2025Q1 (see Figure 5).

Following this category (Growth Drivers) of sectors are eleven (11) sectors, which are Growth Stagnators (sectors with growth rates of less than 5 percent). These sectors accounted for 77.5 percent of Nigeria's GDP in 2025Q1. Only Other Services performed as Growth Draggers in the period under review. Moreover, with its growth improving from 2.2 percent in 2024Q1 to 3.2 percent in 2025Q1, the Non-oil sector remains the backbone of the economy. Conversely, the Oil sector continuously shaves off growth, expanding by 1.9 percent, significantly below the 4.7 percent growth recorded in 2024Q1 (see Figure 4).

Figure 4: Oil and Non-Oil GDP Growth (Year-on-Year, Percent)

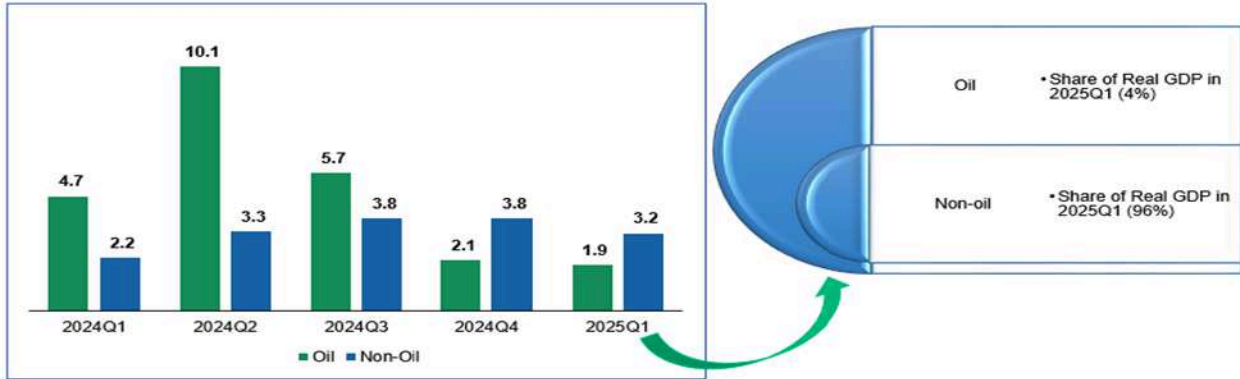


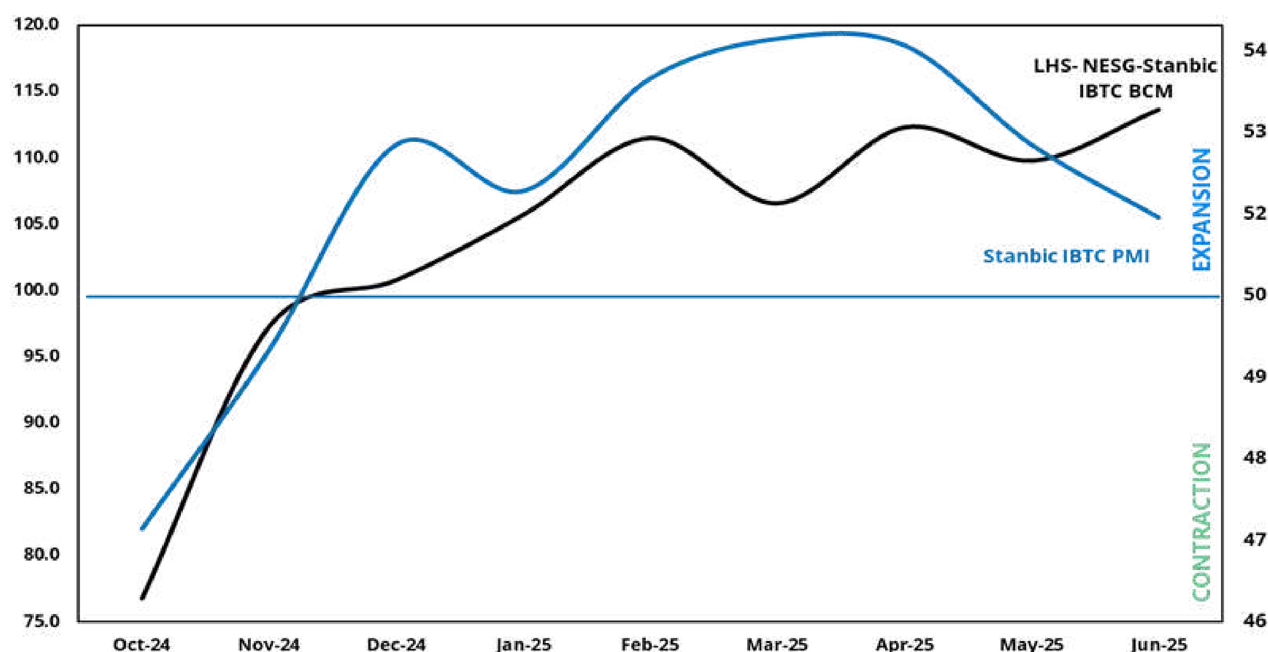
Figure 5: Nigeria's Sectoral Performance in 2025Q1 (Percent)

Sector	Growth Rate (%)	Contribution to GDP growth (%)	Share of GDP (%)	Category
Other Mining	24.0%	1.6%	0.3%	Growth Drivers
Electricity supply	18.6%	1.8%	0.3%	Growth Drivers
Financial & Insurance	15.0%	15.5%	3.6%	Growth Drivers
Transport	14.1%	4.0%	1.0%	Growth Drivers
Arts & Entertainment	9.6	1.4%	0.5%	Growth Drivers
Water supply	9.4%	0.7%	0.2%	Growth Drivers
ICT	7.4%	24.0%	10.6%	Growth Drivers
Construction	6.2%	9.1%	4.7%	Growth Drivers
Real Estate	4.6%	19.3%	13.3%	Growth Stagnators
Admin Services	2.9%	1.2%	1.3%	Growth Stagnators
Accommodation & Food Services	2.6%	0.7%	0.8%	Growth Stagnators
Professional Services	2.5%	2.0%	2.5%	Growth Stagnators
Education	2.5%	0.6%	0.8%	Growth Stagnators
Oil & Gas	1.9	2.4%	4.0%	Growth Stagnators
Trade	1.8%	10.5%	18.2%	Growth Stagnators
Public Admin	1.8%	1.3%	2.1%	Growth Stagnators
Health	1.8%	0.9%	1.6%	Growth Stagnators
Manufacturing	1.7%	5.3%	9.6%	Growth Stagnators
Agriculture	0.1%	0.5	23.3%	Growth Stagnators
Other Services	-6.1%	-2.7%	1.3%	Growth Draggers

Data: NBS, Calculations: NESG Research

Nigeria's Private sector remained mainly in the expansion region in 2025H1. As illustrated in Figure 6, Nigeria's private sector performance—captured through the Stanbic IBTC Purchasing Managers' Index (PMI) and the NESG-Stanbic IBTC Business Confidence Monitor (BCM)—indicates a continued trajectory of activity expansion over the first half of 2025. The PMI consistently stayed above the critical 50-point threshold, signalling ongoing growth in private sector activity. However, a gradual decline from its March 2025 peak reflects a slowing pace of expansion, rather than a contraction. By June 2025, the PMI moderated to 52 points, suggesting that factors such as inflationary pressures, rising input costs, or policy uncertainty may be dampening momentum.

Figure 6: Nigeria's Private Sector Performance



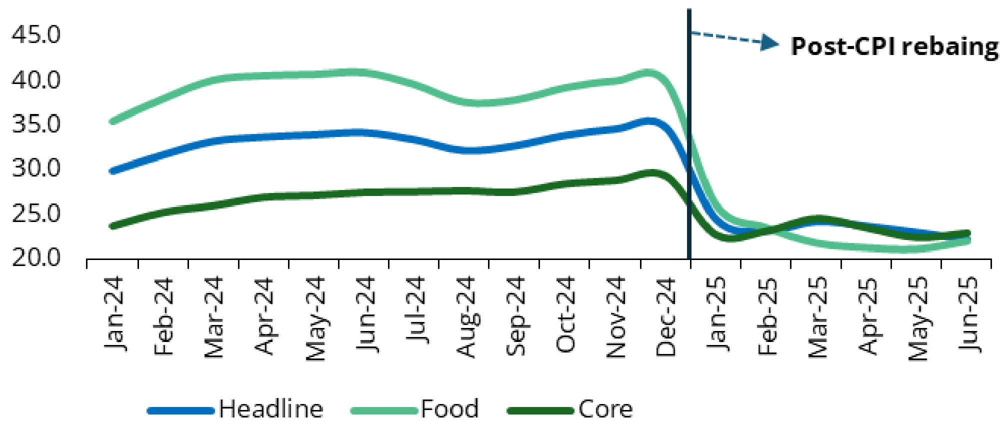
In parallel, the NESG-Stanbic IBTC BCM echoed the trend observed in the PMI but exhibited sharper fluctuations. Starting the year around the neutral 100-point mark, the index rose sharply to 120 points in March 2025, indicating a significant improvement in business performance. However, confidence waned thereafter, falling back to approximately 105 points by June 2025. This decline may reflect growing concerns among business leaders about the economic outlook, including potential softening of consumer demand or macroeconomic instability.

Despite the moderation in both indices, it is essential to note that they remain above their respective neutral benchmarks, reinforcing that the private sector continues to expand, albeit at a slower pace. While business confidence and performance have softened, Nigeria's economy has not weakened in tandem.

Inflationary pressure eased, but upside risks still loom. Following the Consumer Price Index (CPI) rebasing, all inflation indices fell sharply (see Figure 7). However, headline and core inflation remain heightened in the first half of 2025 at 23.5 percent and 23.1 percent, respectively, suggesting that the underlying structural drivers of inflationary pressures persist, including infrastructural deficit, logistics challenges, flooding and insecurity, which constitute headwinds to inflation.

Meanwhile, the relative slowdown in food inflation following the rebasing is attributed mainly to base effects and relative stability in the exchange rate, with food inflation reported at 22.6 percent in the first half of 2025. This ultimately reversed the pre-rebasing narrative of food inflation rising above both headline and core inflation, partly due to the reduction in the share of food items in the CPI basket from 51.8 percent to 40.1 percent. However, leaving insecurity and rampant flood cases in the major food-producing regions unaddressed could elevate food inflation in the coming months.

Figure 7: Nigeria's Inflation Rate (Percent)

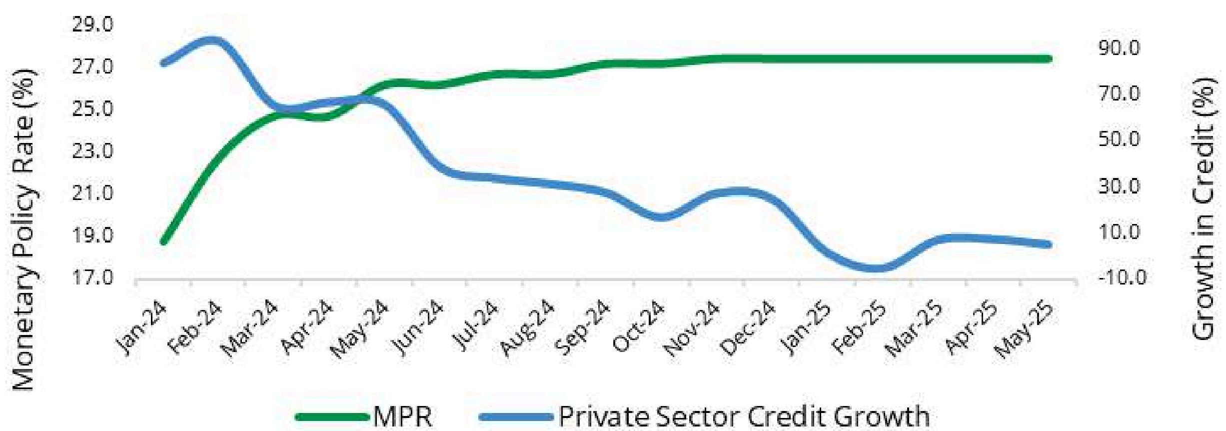


Data: NBS; Chart: NESG Research

B. MONETARY POLICY AND FINANCIAL MARKET

Previous monetary tightening leaves a lasting scar on credit creation in 2025H1. The CBN's Monetary Policy Committee (MPC) has not been as hawkish as it was in 2024, raising the monetary policy rate (MPR) by 875 basis points. In the first half of 2025, the CBN paused its tightening cycle, keeping all monetary policy parameters unchanged: MPR at 27.5 percent, Cash Reserve Ratio (CRR) at 50 percent (for deposit money banks) and 16 percent (merchant banks), Liquidity Ratio remained at 30 percent, and an asymmetric corridor of +500/-100 basis points around the MPR. Despite this reprieve, the last rate hikes have resulted in a credit squeeze, with the growth of private sector credit plunging from 75.2 percent in 2024H1 to 2.8 percent in 2025H1 (see Figure 8), due to the high cost of borrowing.

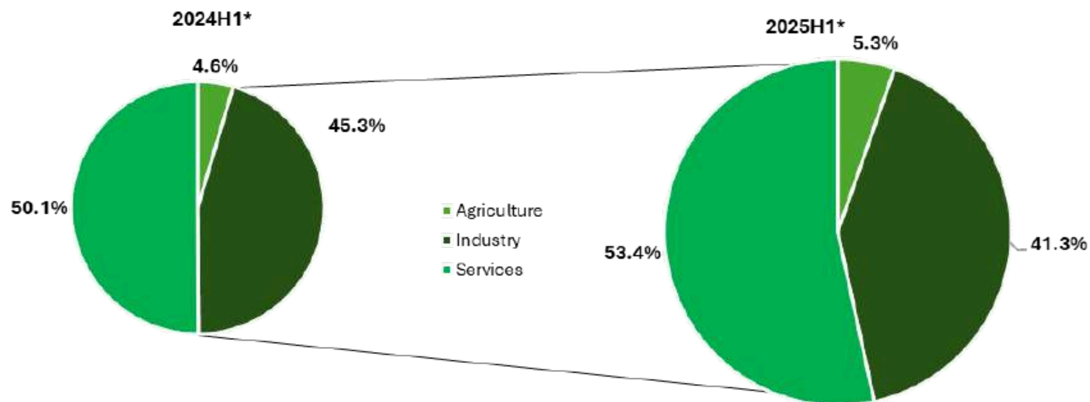
Figure 8: Nigeria's MPR and Growth of Credit to the Private Sector



Data: NBS; Chart: NESG Research

However, credit creation remained skewed towards the services sector, which accounted for over half of the loan books of deposit money banks in 2025H1(here January to May), followed by Industry (41.3 percent), with oil and gas credit dominating credit allocation in the Industrial sector (see Figure 9). Even though credit allocation to the Agricultural sector improved to 5.3 percent in 2025H1 (here January to May) from 4.6 percent in the same period of 2024, the sector remains less attractive to bank lending due to uncertainty and a relatively extended payback period on investment. Moreover, the recapitalisation drive of deposit money banks is expected to improve banking sector liquidity and boost credit creation in the near term. However, if efforts are not made to de-risk the Agricultural sector, Services, and Industry would continue to dominate credit allocation.

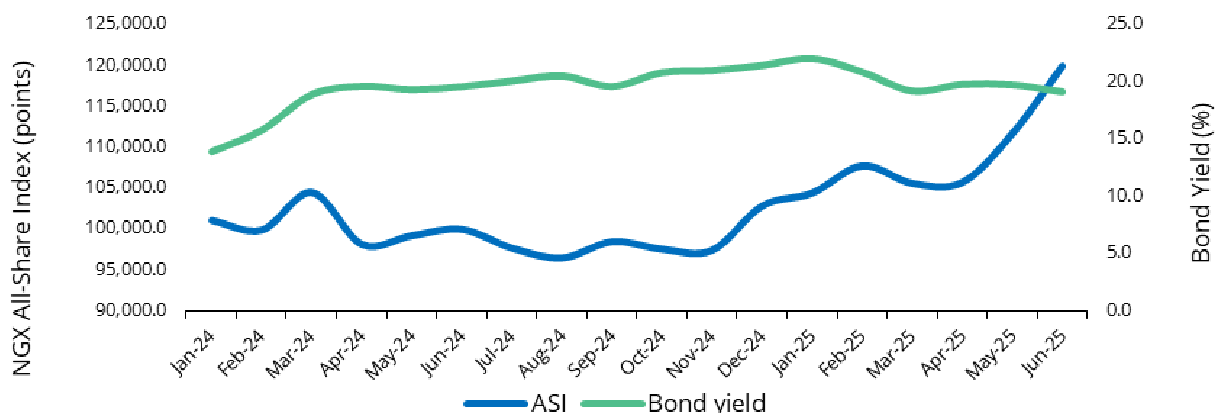
Figure 9: Sectoral Distribution of Private Sector Credit*



Note: The numbers is for the first five months of 2024 and 2025.
Data: CBN; Computation & Chart: NESG Research

Capital market rallies, but portfolio flows lead the charge. The Nigerian Exchange (NGX) recorded an increase in the All-Share Index (ASI) by 19.9 percent from 100,057.5 points in 2024H1 to 119,978.6 points in 2025H1 (see Figure 10). This is attributed to positive investor sentiment driven by the strong corporate performance of some companies for 2025Q1 and policy clarity. The NGX Group partnered closely with regulators to enhance transparency, broaden product offerings (including exchange-traded funds and fixed-income products), and improve retail access through its NGX Invest platform. However, portfolio investors dominate the market, with the participation of foreign portfolio investors increasing from 20.1 percent in 2024H1 to 27.8 percent in 2025H1 (NGX, 2025). Similarly, the interest rate stabilisation and Naira devaluation drew both domestic and foreign investors back to bonds. The high demand for Nigerian bonds may partly explain the decline in bond yields during the review period.

Figure 10: Nigeria's Stock and Bond Market Performance

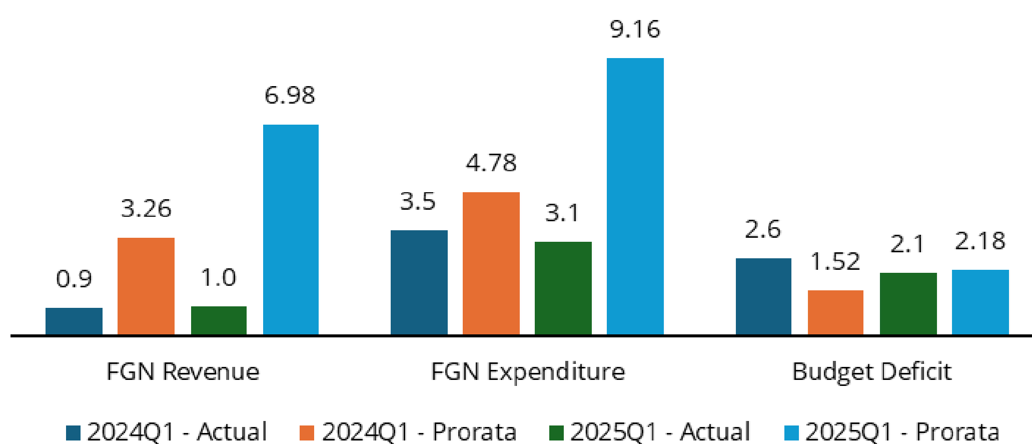


Data: NGX & Online Sources; Chart: NESG Research

C. FISCAL POLICY ENVIRONMENT

Unbalanced growth in revenue and spending tightened fiscal space. The country persistently faces revenue challenges, with the government raising about N1.0 trillion in 2025Q1, an increase from N0.9 trillion in 2024Q1, primarily attributed to exchange rate gains and the enduring impact of fuel subsidy removal. However, the government revenue in both periods represents an underperformance relative to the prorata budgetary estimates (see Figure 11). Also underperforming the budget, the Federal Government of Nigeria (FGN) expenditure fell from N3.5 trillion in 2024Q1 to N3.1 trillion in 2025Q1. Consequently, the fiscal account recorded a deficit of N2.2 trillion in 2025Q1, down from N2.1 trillion. However, the fiscal deficit underperformed in 2025Q1, relative to its overperformance in 2024Q1 (CBN, 2025).

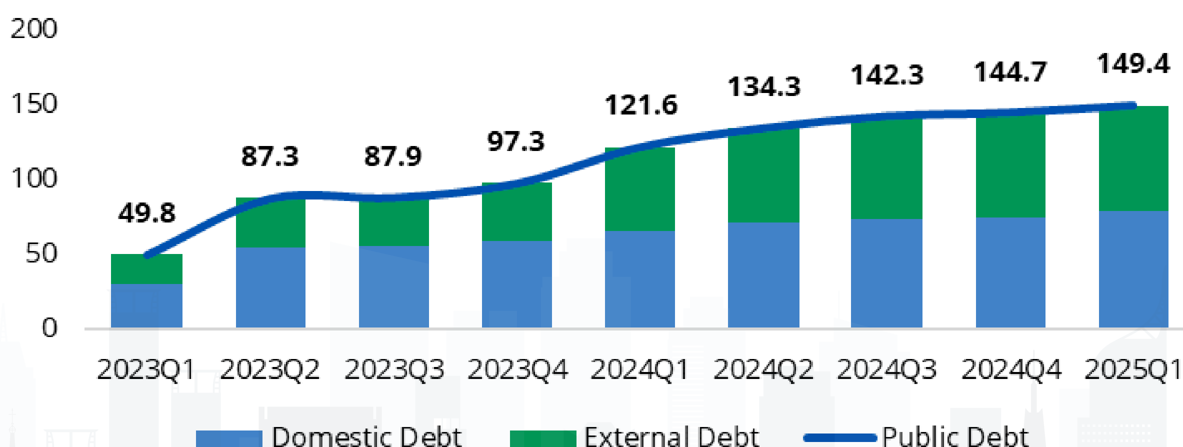
Figure 11: FGN Fiscal Account (N'Trillion)*



Note: The numbers are the sum for January, February 2024, and 2025.
Data: CBN,; Chart: NESG Research

The unfavourable fiscal account position suggests a need to rely on borrowing to finance part of the deficit. This situation would increase the country's public debt stock, which stood at a record high of N149.4 trillion as of 2025Q1, 22.9 percent higher than its level in 2024Q1 (see Figure 12). More concerning is that a large portion of government revenues is expended on servicing public debts, with the debt servicing-to-revenue ratio crossing 100 percent in 2025Q1. Another area of concern is the significant jump in external debt, whose share of the total public debt stock rose from 46.1 percent in 2024Q1 to 47.3 percent in 2025Q1. This could be further exacerbated by exchange rate depreciation, which heightens external debt default risks.

Figure 12: Nigeria's Public Debt Profile (N'Trillion)



Data: Debt Management Office (DMO); Chart: NESG Research

D.EXTERNAL SECTOR PERFORMANCE

Nigeria's external sector strengthened, but not fully shielded from the spillover of external shocks. The foreign exchange (FX) reform – the unification of the multiple official exchange rates and FX market liberalisation – has continued to phase out arbitrage opportunities but could not abate Naira devaluation amidst external reserves accretion. In 2025H1, the gap between the parallel and official exchange rates plunged to 2.8 percent from 6.9 percent in 2024H1. Despite this, the Naira weakened against the U.S. dollar by 13.1 percent and 9.6 percent (year-on-year) at the official and parallel FX markets, respectively, in the period under review (see Figure 13). Meanwhile, in early 2025, the Naira appreciated temporarily in 2025Q1, before trading within a stable range of N1529.2-N1629.4/US$ (official) and N1550-N1640/US$ (parallel) in the latter part of 2025H1.

Figure 13: Nigeria's Exchange Rate (N/US$)

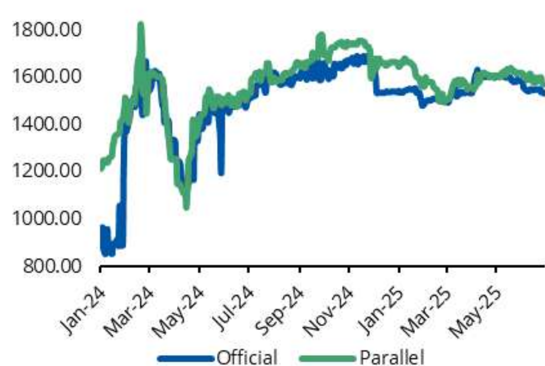
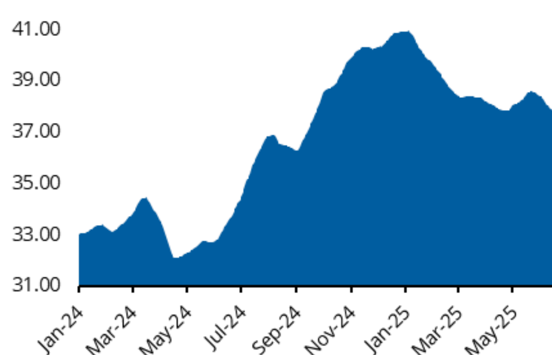


Figure 14: Nigeria's External Reserves

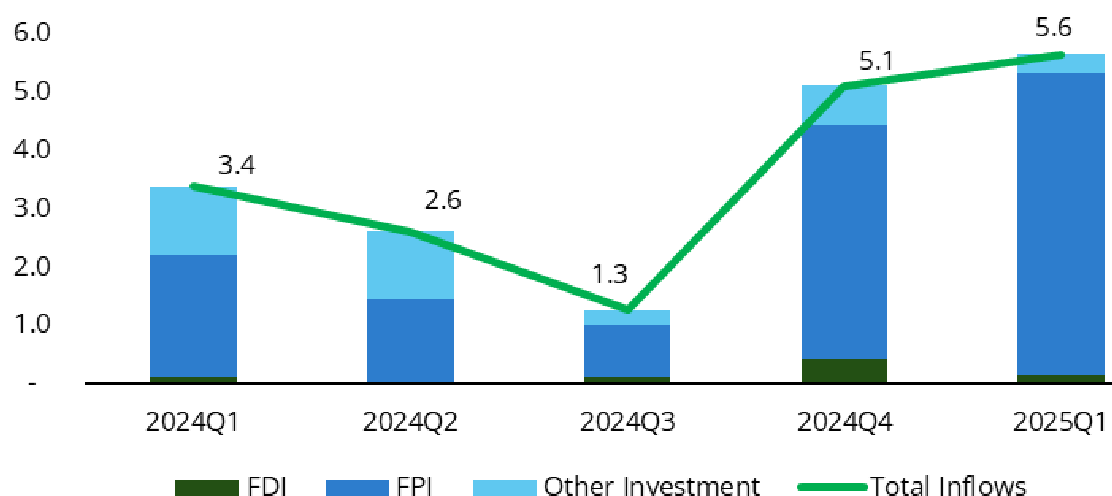


Data: CBN, Online Sources; Chart: NESG Research

Moreover, the external reserves grew significantly from US$34.2 billion in 2024H1 to US$37.2 billion in 2025H1, albeit declining from a peak of US$40.9 billion recorded in January 2025 (see Figure 14). The recent slowdown in reserves is primarily attributed to the debt servicing costs, CBN FX interventions, and weaker inflows from oil exports. For instance, in 2025Q1, oil exports grew by 0.2 percent y/y to N17.4 trillion. This marginal contribution reflects the impact of the global energy transition towards renewable energy products and suggests prioritising non-oil exports, which grew by 177 percent y/y.

Foreign capital inflows into Nigeria were dominated by hot money, heightening the risk of a sudden reversal. Total foreign investment inflows surged to US$5.6 billion in 2025Q1, up from US$3.4 billion in 2024Q1 and US$5.1 billion in 2024Q4 (see Figure 15), propelled largely by a sharp rise in foreign portfolio investment (FPI). FPI accounted for 92.3 percent of total inflows (US$5.2 billion) in 2025Q1, compared to 61.5 percent (US$2.1 billion) in 2024Q1. In contrast, foreign direct investment (FDI) and Other Investment made modest contributions of 2.2 percent (US$126.3 million) and 5.5 percent (US$311.2 million), respectively, in 2025Q1. This suggests that Nigeria's investment environment currently tilts towards short-term financial instruments offering attractive yields, reflecting the risk-sensitive behaviour of portfolio investors who demand high returns to account for risk premiums in emerging markets, such as Nigeria. However, this heavy reliance on short-term capital or hot money increases exposure to FX volatility in the event of abrupt withdrawals, reinforcing the imperative to rebalance the country's capital importation profile towards stable, long-term inflows, particularly FDI, to underpin sustainable growth and job creation.

Figure 15: Nigeria's Foreign Capital Inflows (US$ billion)



Data: NBS; Chart: NESG Research

Conclusion

The recent rebasing of Nigeria's GDP and CPI has improved the accuracy of macroeconomic measurement and offers a more realistic view of the economy's structure and performance. However, the mild statistical relief from GDP rebasing does little to alter the underlying fundamentals needed to sustain growth momentum. Although headline inflation has moderated, persistent upside risks—driven by exchange rate pass-through, energy costs, and supply-side bottlenecks—remain salient. The cumulative impact of prior monetary tightening continues to suppress private sector credit expansion, further dampening real sector performance. On the fiscal front, revenue-expenditure lop-sidedness has narrowed fiscal space, constraining countercyclical fiscal policy options. While external sector indicators have strengthened, vulnerabilities remain, particularly in the face of volatile oil export earnings. The capital market's strong performance, though notable, has been primarily driven by short-term portfolio inflows rather than productive, long-term investment. While the landmark reforms and rebasing enhance transparency and provide a more credible macroeconomic baseline, translating these gains into measurable social progress remains a daunting task for the government.

STAYING THE COURSE
ON REFORMS: TURNING
ECONOMIC GAINS INTO
SOCIAL PROGRESS

Introduction

Compelled by the urgency to avert a looming economic crisis, the Nigerian government implemented some far-reaching reforms in 2023 to support and stabilise the economy. These bold policy actions aimed to place the nation on a path of stronger, more sustainable growth and enhance its resilience to external shocks. Early macroeconomic indicators reflected modest yet positive shifts, including a slight uptick in Gross Domestic Product (GDP) growth, a reduction in the fiscal deficit from 6.2 percent to 4.4 percent of GDP, an increase in external reserves to around US$40 billion, and a gradual easing of inflationary pressures.

As noted by the World Bank[1] and other multilateral development institutions, these macroeconomic outcomes point to the necessity and long-term benefits of the reform agenda. In the same vein, these reform actions have imposed severe short-term pressures on economic agents in the Nigerian society. Thus, underscoring the complexities involved. The first point of notable effects is at the household level. Many households grapple with escalating inflation and eroded purchasing power. This is caused by workers facing job losses and declining real wages. The business sector is also faced with soaring operational costs and reduced profitability. These paradoxical outcomes (favourable macroeconomic outcomes alongside adverse effects on households and businesses) reinforce the need not only to sustain the reform momentum but also to adopt a strategic framework of policy measures. This intended framework will not only aim at the immediate cushioning of hardships but also enhance resilience across sectors as well as promote a more inclusive socio-economic transition toward sustainable economic stability and broad-based growth.

Overview of Nigeria’s Economic Reforms: Rationale and Objectives

The core components of Nigeria's 2023 economic reforms and structural readjustment are anchored on three major policy shifts. These policy shifts are Fiscal Reforms, Monetary Policy Realignment and Non-policy and Structural reconfiguration.

Firstly, the Federal Government completely discontinued the fuel subsidy regime. This critical fiscal reform aimed at curbing the enormous financial burden the programme had placed on public finances. Instructively, the fuel subsidy regime had long been criticised as a primary source of fiscal leakages and corruption. Its removal led to a significant increase in government revenue, which was reflected in higher monthly allocations shared through the Federation Account Allocation Committee (FAAC) among the three tiers of government.

In addition, the government initiated partial liberalisation and decentralisation of the energy market. This singular move led to a surge in electricity costs as the government partly scaled back subsidies in the power sector. Further fiscal measures included the suspension of excise duties on telecommunication services and the reduction of excise taxes on locally manufactured goods, among others. Other complementary fiscal reform initiatives were implemented through a series of executive orders issued by the President. These actions demonstrated that the Nigerian government is making a shift towards a more flexible, responsive, and pro-market fiscal governance.

In a non-precedent reform setting, the Central Bank of Nigeria (CBN) concurrently initiated significant monetary policy reforms. Aside from the return to orthodox monetary policy stances, the first major actions are the unification of exchange market rates and the establishment of a more market-reflective foreign exchange (FX) market operation. By this policy posture, the CBN aimed to eliminate market distortions, reduce FX arbitrage, enhance investors' confidence, and improve the FX market transparency. In addition, restrictions on access to the foreign market to import 43 commodities were lifted.

[1] World Bank. May 2025. Nigeria Development Update. Available via https://www.worldbank.org/en/country/nigeria/publication/nigeria-development-update-ndu

The CBN also adopted a more aggressive monetary policy stance. First, the monetary authorities introduced an "Inflation Targeting Framework" to curb Nigeria's persistently high inflationary pressure. The culminated effects are reflective in the adjustment of the Monetary Policy Rate (MPR) to its historical highest level of 27.5 percent.

Beyond these fiscal and monetary policy adjustments, the government also articulated other critical policy shifts. First, there is an agenda to enhance food security with the introduction of single-digit credit facilities for agricultural ventures. In addition, CBN’s commitments to exiting its quasi-fiscal functions, fostering the creation of specialised financial institutions, and facilitating new regulatory frameworks to strengthen private sector development.

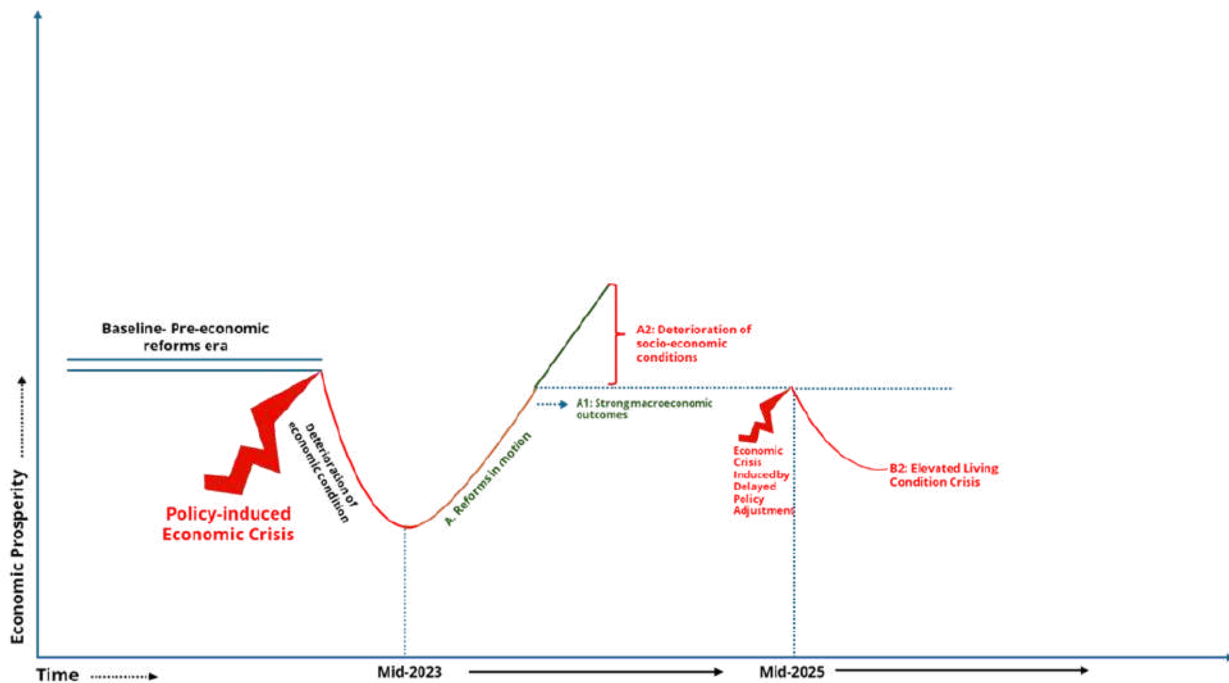
Documented Socio-Economic Impacts of the Reforms

The economic reforms initiated in 2023, while they aimed at long-term stability, have generated significant short-term socio-economic challenges across Nigerian households, workers, and businesses. Whilst the reforms are strategically necessary for macroeconomic stability, the implementation process created a complex dynamism where the government's rationale for reform often clashes with the immediate lived experiences of citizens and businesses.

The most immediate and pervasive impact of the reforms was reflected in the condition of living of households. Escalating inflationary pressure severely eroded the purchasing power of households. Firstly, high transportation costs, a direct consequence of the fuel price hikes, which went up nine times after the reforms, affected daily commuting and the cost of goods. The surge in transport costs led to deepening food insecurity. Higher fuel costs, through the pass-through effect on transportation and agricultural production expenses, resulted in increased food prices and inflation. The already financially-strained condition of households exacerbated food insecurity, making it challenging for the poor to afford sufficient and nutritious food, potentially leading to hunger, malnourishment, and starvation. These outcomes suggest that the reforms, while potentially beneficial macroeconomically, are deepening existing socio-economic inequalities and pushing more people into poverty. The country's current trajectory birthed a "lopsided economy" where macroeconomic indicators improved on paper, but the daily reality for the majority deteriorated.

For businesses, the operating environment became constrained due to increased operational costs triggered by immense pressure from the reforms. Effects of exchange rate depreciation, complete fuel subsidy stoppage, and partial liberation of the electricity market inflated production costs, squeezing operating margins and adversely affecting overall business performance. For example, Manufacturers reported a staggering increase in energy bills, leading to an increase in the cost of operation.

Figure 16: Outcomes of Nigeria's Current Reform Process in Nigeria



Aside from higher finance costs leading to substantial financial losses, the challenging business environment also prompted significant foreign company exits and divestments. For example, multinational companies, including Procter & Gamble, GlaxoSmithKline Consumer Nigeria, Equinor, Sanofi, and Bolt Food, withdrew from Nigeria, citing economic uncertainties and unfavourable business conditions.

CBN's aggressive interest rate hikes, a direct response to inflation, have inadvertently restricted access to credit for Micro, Small and Medium-sized Enterprises (MSMEs) and smallholder farmers. Combined with soaring operational costs and reduced consumer demand due to inflation, MSMEs' credit crunch led to a massive shutdown of businesses. Since MSMEs are vital for job creation and economic growth, their collapse creates a negative feedback loop that hinders overall economic recovery. This presents a policy dilemma for the economy: controlling inflation using monetary tightening measures created a productivity issue for businesses.

Box 1: Assessment of Current Mitigation Strategies in Nigeria

In response to the adverse socio-economic impacts of the 2023 reforms, the Nigerian government has implemented a range of mitigation strategies for households and businesses. These measures/strategies are notably undermined by issues of delayed execution and poor targeting.

One striking example is the limited reach of the government's cash transfer programme, which has only covered 37 percent (only 5.6 million households) of the intended beneficiaries (World Bank, 2025), primarily due to biometric verification challenges. Also, the government's broader emphasis on private sector-led growth and infrastructure development reflects a commendable long-term vision. However, there is a need for a strategic refocusing on short-term economic relief.

In addition, several sector-specific interventions have been introduced to support businesses. The Central Bank of Nigeria's (CBN) 10-point agenda includes efforts to revitalise specialised financial institutions, introduce new regulatory frameworks, expand consumer credit, and deploy de-risking instruments to attract private sector investment in priority sectors such as agriculture, healthcare, and education.

Complementary initiatives—such as those led by the Nigerian Credit Guarantee Company (NCGC) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)—aim to enhance access to credit for Micro, Small, and Medium Enterprises (MSMEs). However, it is increasingly evident that improved financial access alone is insufficient. MSMEs continue to face major structural and environmental barriers to survival and growth, including unreliable electricity, poor road infrastructure, widespread insecurity, high inflation, currency depreciation, and burdensome taxation. These non-financial constraints contribute significantly to the high failure rate of MSMEs, suggesting that credit provision must be part of a more holistic support framework

Steps to Turning Economic Gains into Social Progress

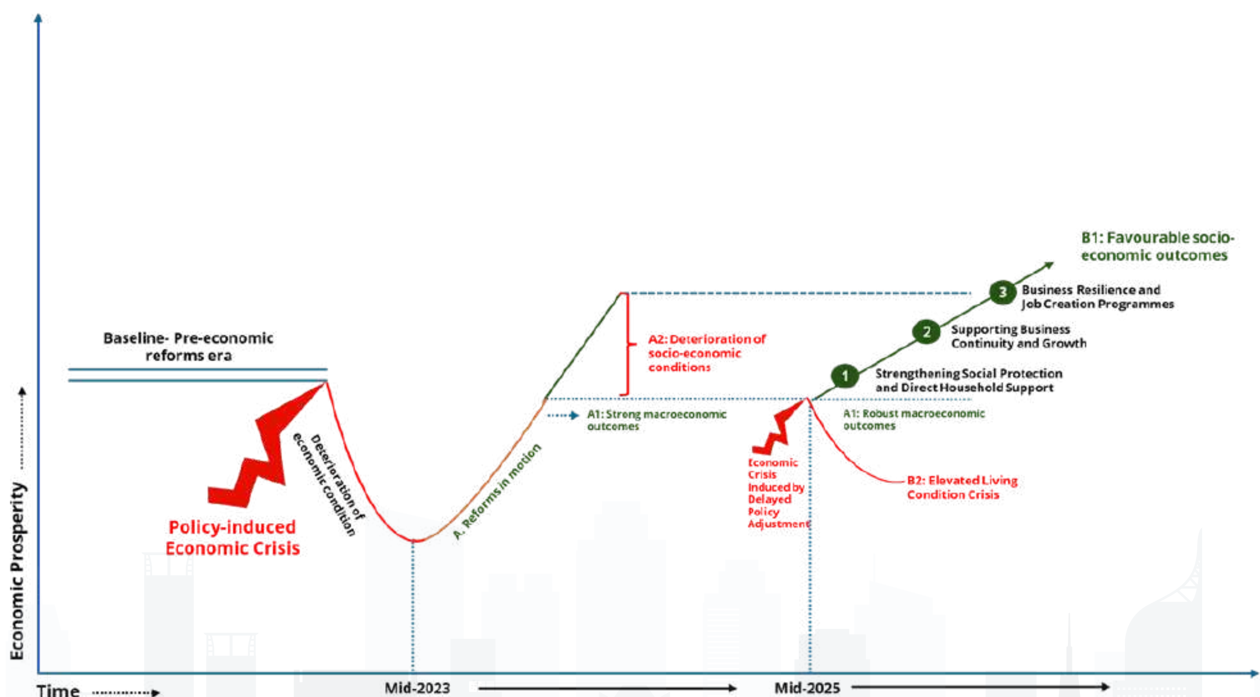
The 2023 economic reforms in Nigeria, characterised by the removal of fuel subsidies and the liberalisation of the foreign exchange market, represent a critical, albeit painful, pivot towards macroeconomic stability. Whilst these measures have resulted in favourable fiscal health and foreign exchange reserves, their immediate socio-economic repercussions on households, workers, and businesses have been profound. The current mitigation measures, though well-intentioned, suffer from an implementation-governance deficit, marked by delays and insufficient targeting, which fuels already high-level public scepticism. Many interventions offer short-term relief without addressing the fundamental structural issues that amplify the reform impacts. Furthermore, government programmes for business support, focused mainly on credit access, often overlook the broader enabling environment, including critical infrastructure and regulatory challenges, which are equally vital for sustained growth.

A. Strengthening Social Protection and Direct Household Support

The government must urgently expand and improve the delivery of social protection programmes as an immediate measure. These actions will include scaling up cash transfers, food support, school feeding, and health subsidies, particularly targeted at vulnerable groups such as low-income households, women, persons with disabilities, and older people.

Enhancing the Reach, Transparency, and Effectiveness of Cash Transfer Programmes	Direct cash transfers are a proven, effective mechanism for providing immediate relief, alleviating poverty, and improving household consumption, food security, and human capital outcomes. Lessons from Indonesia and the Philippines (4Ps) clearly demonstrate the positive impact of well-implemented, large-scale cash transfer programs in cushioning the immediate shocks of economic reforms. Imperatively, the Nigerian government needs to dramatically scale up the National Cash Transfer Program (NCTP). The disbursement to poor and vulnerable households operation must be timely and transparent. A critical step involves addressing the bottlenecks in biometric verification to significantly expand coverage beyond the current 37 percent (only 5.6 million) of targeted households. Improving and diversifying targeting mechanisms, potentially integrating a combination of categorical targeting (e.g., elderly, women with children, urban poor) with robust community-based validation and digital identification systems, will maximise reach and minimise exclusion errors, while continuously building administrative capacity for more sophisticated targeting over time. Rigorous public reporting and accountability mechanisms are crucial steps to combat politicisation, prevent diversion of funds, and build the needed public trust.
Implementing Targeted Food Security Interventions and Agricultural Support	The government should introduce and sustain smart agricultural subsidies and comprehensive support programs to significantly boost local food production and stabilise food prices. This involves providing targeted, affordable inputs (e.g., fertilisers, improved seeds, crop protection products) and credit facilities at single-digit interest rates to smallholder farmers and agribusinesses, directly addressing the dramatic increase in input costs and limited credit access. Supporting the private sector in leading food systems reform, focusing on de-risking, catalysing, and convening, is also essential.
Prioritising Investments in Essential Public Services (Health and Education)	Systematically, a significant portion of the savings from fuel subsidy removal and the electricity market must be reinvested in critical public services and infrastructural facilities. This is to ensure improved access, quality, and affordability in social services such as health and education. Specific actions required include upgrading primary health facilities, improving access to affordable healthcare services, and upskilling educational infrastructure and quality. The government can fully leverage and expand the World Bank's existing support for human capital development, including programmes like NG-CARES, ANRIN, and HOPE-EDU.

Figure 17: Steps to Turning Economic Gains into Social Progress



B. Supporting Business Continuity and Growth

Critical pathway to translating economic gains from current reforms into inclusive social progress lies in ensuring the sustainability and expansion of MSMEs, which are the backbone of the Nigerian economy. This approach will, in turn, strengthen the foundation for short-term socio-economic resilience and long-term shared prosperity.

Measures to Stabilise the Currency and Improve Foreign Exchange Access	The government must prioritise measures to stabilise the Naira and ensure predictable access to FX for legitimate businesses, particularly those reliant on imported raw materials. This action will involve maintaining a unified and market-reflective exchange rate, clearing legitimate FX backlogs, and implementing policies that enhance accretion to Nigeria's foreign reserves. If achieved, this will help businesses, particularly MSMEs, to have a stable and predictable access to the foreign exchange market. This is crucial for business planning, cost management, and investor confidence.
Providing Targeted Financial Support and De-risking Mechanisms for MSMEs	It is essential to enhance targeted financial support and de-risking mechanisms for MSMEs and the agricultural sector, ensuring that credit is both accessible and affordable. The National Credit Guarantee Company (NCGC) should be fully operationalised with substantial guaranteed coverage (up to 60 percent on loans) to incentivise commercial banks, microfinance institutions, and fintech companies to lend more boldly to underserved MSMEs. The application process for these funds should be digitally simplified with minimal or no collateral requirements. Business development services, such as financial management training and market linkages, are vital to empower SMEs beyond access to credit. Targeted and de-risked credit is necessary to prevent further business closures and stimulate growth in this vital sector.
Improving Critical Infrastructure and Reducing Operating Costs	A coordinated government strategy is needed to significantly improve critical infrastructure, particularly power supply and road networks, to reduce the exorbitant operating costs for businesses. Power supply challenges impact all industrial sub-sectors, including manufacturing. The Electricity Act 2023 and plans for a revamped grid, including investments in gas supply and prioritising renewables, are positive steps that must be accelerated. Addressing insecurity, which raises operating costs and business risks, is also paramount. Poor infrastructure and high energy costs are major non-financial barriers causing business failures and reduced productivity. Improving these foundational elements will create a more enabling environment for businesses to thrive, retain existing companies, and attract new investments.
Streamlining Regulatory Frameworks and Tax Policies	The government should actively work on streamlining Nigeria's current complex regulatory frameworks. Harmonising the current multiple taxation systems that currently burden businesses, particularly MSMEs. Reducing bureaucratic bottlenecks and ensuring policy consistency will foster a more predictable and supportive business environment. This includes domesticating the African Continental Free Trade Area (AfCFTA) agreement to improve MSME competitiveness and fast-track their regional and global trade participation. Inefficient management and complex regulatory frameworks have worsened the situation for MSMEs. Simplifying these processes will reduce compliance costs, encourage formalisation, and enhance the ease of doing business, thereby stimulating business startup, growth, and sustainability.

C. Fostering Sector's Productivity and Job Creation

One of the most effective pathways to translating economic gains into tangible social progress lies in boosting productivity across key sectors of the economy while creating decent and sustainable jobs. A reform-driven economy must be anchored on productive sectors that not only contribute to GDP growth but also absorb labour, especially among the youth and women.

Strategies for Formalising the Informal Sector	Implementing a comprehensive, integrated policy framework to facilitate the gradual and incentivised transition of informal sector workers and businesses into the formal economy is crucial. This entails reducing regulatory burdens and bureaucracy, simplifying business registration processes, and offering clear incentives for formalisation, such as access to formal credit, social protection schemes, and public procurement opportunities. Critically, social protection coverage (e.g., health insurance, contributory pensions) must be expanded to accommodate informal sector workers, recognising their current lack of benefits. Leveraging digital platforms and national ID systems for formalisation, drawing lessons from successful international examples like Rwanda, can accelerate this process. The informal sector, comprising nearly 90 percent of Nigeria's workforce, is highly vulnerable and lacks social protection. Formalisation not only extends essential social and labour protections to a vast segment of the population but also significantly expands the tax base, providing more fiscal space for sustained social safety nets and public investments.
Implementing Robust Active Labour Market Policies (ALMPs)	It is essential to enhance targeted financial support and de-risking mechanisms for MSMEs and the agricultural sector, ensuring that credit is both accessible and affordable. The National Credit Guarantee Company (NCGC) should be fully operationalised with substantial guaranteed coverage (up to 60 percent on loans) to incentivise commercial banks, microfinance institutions, and fintech companies to lend more boldly to underserved MSMEs. The application process for these funds should be digitally simplified with minimal or no collateral requirements. Business development services, such as financial management training and market linkages, are vital to empower SMEs beyond access to credit. Targeted and de-risked credit is necessary to prevent further business closures and stimulate growth in this vital sector.
Creating an Enabling Environment for Private Sector-Led Job Growth	Fostering a genuinely conducive business environment to incentivise private sector investment, expansion, and sustainable job creation is paramount. This requires aggressively addressing persistent challenges such as insecurity, unreliable power supply, and dilapidated road infrastructure. Reducing trade barriers and improving competition policy and its enforcement can spur productivity growth. Actively leveraging and facilitating international partnerships and investments, such as the recent Chinese investment pledged for agriculture, mining, automotive, steel, and energy sectors, explicitly linking these to job creation targets, will be beneficial. Sustainable and inclusive job creation is primarily driven by a thriving private sector. Removing structural constraints and attracting both domestic and foreign investment are fundamental for long-term employment growth and economic diversification away from oil dependence.
Streamlining Regulatory Frameworks and Tax Policies	The government should actively work on streamlining Nigeria's current complex regulatory frameworks. Harmonising the current multiple taxation systems that currently burden businesses, particularly MSMEs. Reducing bureaucratic bottlenecks and ensuring policy consistency will foster a more predictable and supportive business environment. This includes domesticating the African Continental Free Trade Area (AfCFTA) agreement to improve MSME competitiveness and fast-track their regional and global trade participation. Inefficient management and complex regulatory frameworks have worsened the situation for MSMEs. Simplifying these processes will reduce compliance costs, encourage formalisation, and enhance the ease of doing business, thereby stimulating business startup, growth, and sustainability.

OUTLOOK FOR THE
NIGERIAN ECONOMY
IN 2025H2

This section presents an assessment of the expected performance of the Nigerian economy for the remainder of 2025. It highlights key events likely to shape the economic trajectory during this period. It concludes with updated projections for GDP growth and other critical macroeconomic indicators, based on the NESG's Macroeconomic Outlook for 2025, titled "Stabilisation in Transition: Rethinking Reform Strategies for 2025 and Beyond."

As the second half of 2025 unfolds, several factors are expected to influence Nigeria's economic path. These include the implementation of fiscal and monetary policy measures, developments in the global economy, movements in commodity prices, government-led initiatives, evolving security dynamics, and possible structural reforms. The interaction among these events will be instrumental in determining the pace and quality of economic performance.

Given the prevailing global uncertainties, projections for key macroeconomic indicators such as GDP growth and inflation remain subject to revision as new developments emerge. The effectiveness and consistency of the government's ongoing policy initiatives—particularly those focused on economic diversification, investment promotion, and social development—will be crucial in navigating the economy through the remainder of the year. A stable and supportive business environment, underpinned by sound infrastructure and policy frameworks, will be essential for attracting both domestic and foreign investment.

Nonetheless, the Nigerian economy will likely encounter persistent risks and challenges in the months ahead. These may include volatility in global markets, heightened security concerns, fiscal pressures, and potential external shocks. Proactive efforts to address these challenges and mitigate associated risks will be vital in sustaining the progress made under ongoing reforms. More importantly, such efforts will be key to ensuring that economic gains are broad-based and translate into tangible improvements in the living standards of Nigerians.

A. REVISED MACROECONOMIC PROJECTIONS FOR NIGERIA IN 2023

The year 2025 in Nigeria marks a pivotal period, combining the peak of ongoing economic reforms with emerging political dynamics ahead of the 2027 general election. As the two-year reform cycle concludes in the first half of 2025, the economy reflects a mixed performance—showing notable gains in some areas while also bearing adverse impacts on 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 2025 are adjusted to reflect current economic realities. In achieving this feat, key global developments, including growth patterns, crude oil prices, and other factors that would shape the domestic economic environment, are analysed alongside Nigeria's crucial internal events. This section provides the forecast of real GDP growth and inflation rate for 2025H2 and culminates in the level of performance for these indicators for full-year 2025 (2025FY).

Momentum of Drivers of Macroeconomic Performance in 2025H2

The revised projection for 2025H2 assumes that the average crude oil price will hover around US$76-$80 per barrel, reflecting continued geopolitical tensions, including lingering effects of the Russia-Ukraine conflict and ongoing unrest in the Middle East, and a moderate rebound in global industrial activity, particularly in emerging markets and advanced economies. This projection is higher than the benchmark oil price of US$75 per barrel used in Nigeria's 2025 national budget.

Crude oil production in Nigeria is projected to average 1.7 million barrels per day (mbpd), including condensates, in 2025H2. This reflects moderate gains over 2024 levels, supported by ongoing efforts to curb crude oil theft, restore upstream investments, and enhance security in the Niger Delta. However, the projection remains slightly below the budgeted production target of 2.06 mbpd, due to lingering operational constraints and infrastructural bottlenecks.

Additionally, the sustained removal of fuel subsidies and the ongoing exchange rate unification are expected to improve the Federal Government's revenue profile. This, combined with increased fiscal space, should enable an improved implementation of the capital expenditure component of the 2025 budget. As a result, public investment in infrastructure, social services, and strategic sectors is likely to accelerate in the second half of the year, reinforcing efforts to stimulate inclusive growth and enhance economic resilience.

Based on these assumptions, the outcomes are as follows:

A.Real GDP Growth (Percent)

Real GDP growth in Nigeria is projected to average around 4.0 percent in the second half of 2025 (2025H2), bringing the full-year growth rate to approximately 3.8 percent (see Figure 18A). This marks a modest recovery and a slight improvement over the growth performance recorded in 2023 and 2024. While this growth trajectory is encouraging, it remains low relative to Nigeria's economic growth potential (optimal growth), though better than the sub-optimal growth projections (see Figure 18B).

As highlighted in Section B of the report, the government is working to mitigate the unintended social impacts of ongoing reforms. Refining these stabilisation measures is expected to foster broad-based sectoral growth in the short term—a shift from the past three years, when only a few sectors recorded growth rates above 5 percent.

The Services sector is expected to remain the primary driver of economic growth in 2025H2, maintaining its momentum due to increased digitalisation, financial services expansion, and urban expansion. In contrast, the Agriculture and Industrial sectors are projected to post modest performances, constrained by climate-related risks (particularly flooding), rising input cost pressures, and infrastructural challenges. Nonetheless, the Oil sector and the Oil-Refining sub-sector are anticipated to support the industrial sector's output, buoyed by an increase in domestic crude oil production and improved domestic refining capacity, respectively.

Despite the anticipated recovery, the projected growth rate will not be sufficient to drive meaningful increases in per capita income or generate broad-based employment opportunities in 2025. Without deliberate and coordinated efforts to implement the recommended policies and action plans—particularly those aimed at translating macroeconomic stability into tangible socio-economic improvements—the benefits of growth may remain limited for the majority of Nigerians.

Figure 18: Revised Projections for Real GDP Growth (percent) in 2025

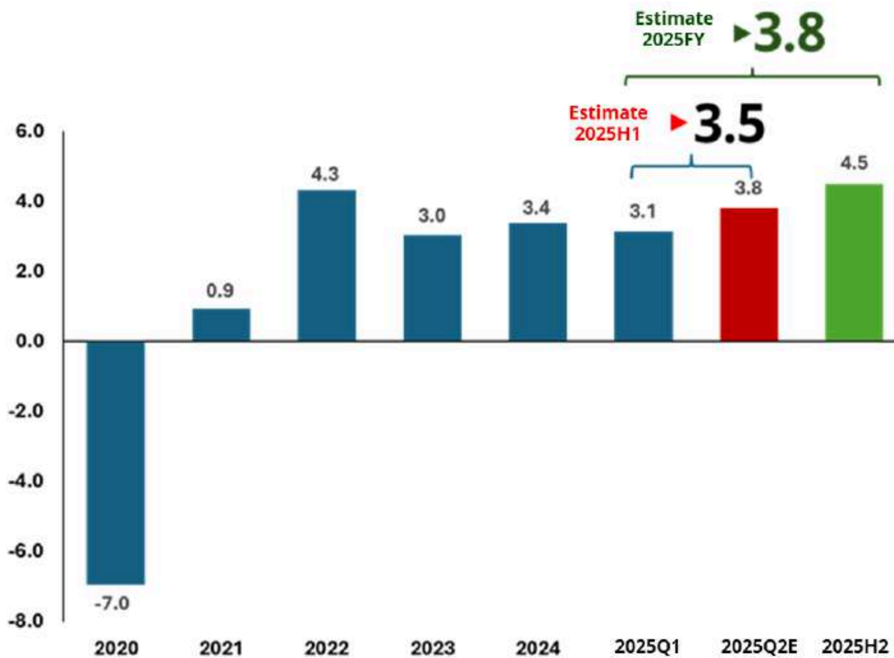
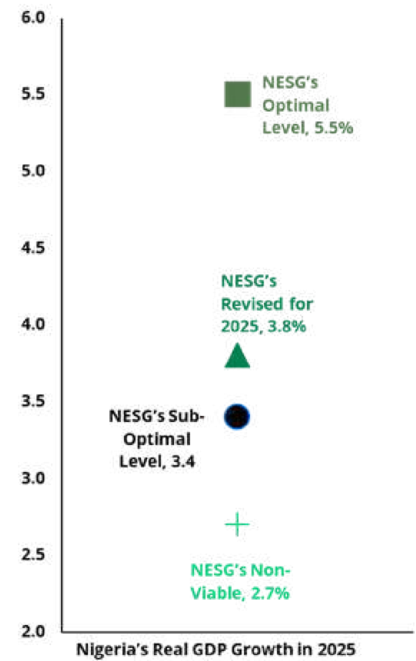


Figure 18B: Revised Projections & Early Scenarios for 2025



Data: NBS 2025 (Revised GDP Figures) | Forecast: NESG Research

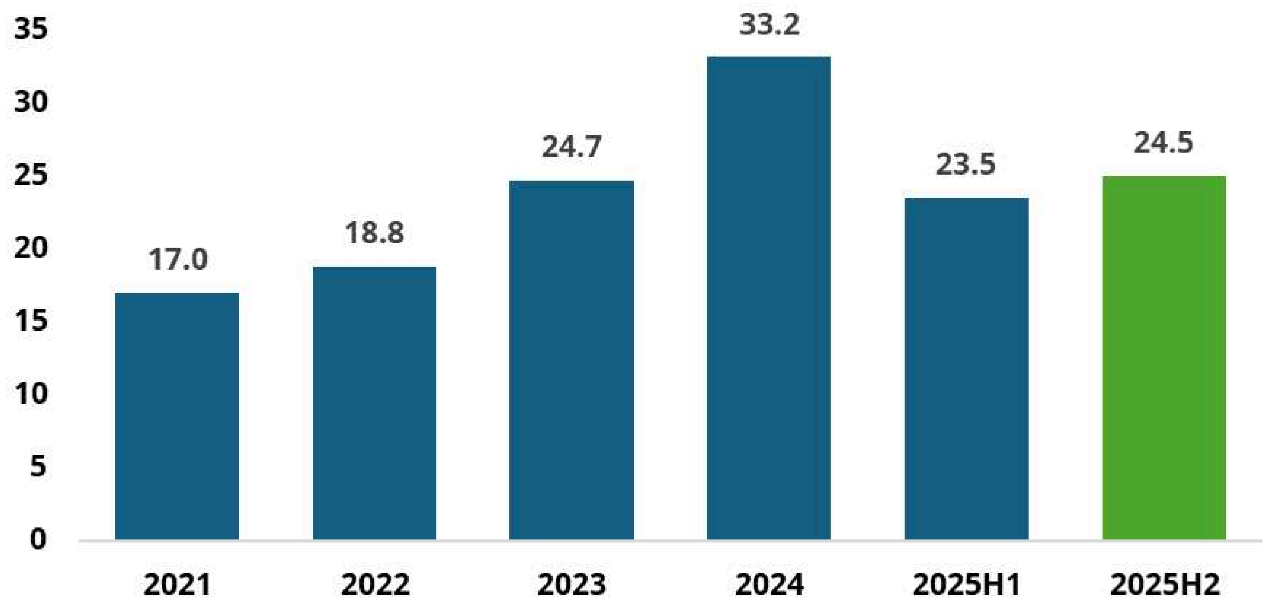
B. Inflation Rate (Percent)

In light of the recently rebased Consumer Price Index (CPI) methodology, Nigeria's inflation rate is projected to average 24.5 percent in 2025H2 (see Figure 19), and close the year at 24.0 percent. This projection reflects a combination of factors, including the low-base effect from the CPI rebasing and potentially favourable outcomes stemming from implementing ongoing reforms.

Inflationary pressures are expected to moderate gradually, supported by the waning effects of fuel subsidy removal, relative stability in fuel prices, and improved exchange rate conditions driven by the convergence of FX rates and enhanced liquidity in the foreign exchange market. These factors will contribute to easing headline inflation compared to previous periods.

Nonetheless, structural constraints, cost-push factors, and the impact of tight monetary policy will continue to exert upward pressure on prices, keeping inflation at elevated levels. The pace of disinflation in 2025H2 will largely depend on the effectiveness and consistency of the reforms being implemented by the current administration. If sustained, these reforms are expected to yield more measurable gains in curbing inflationary momentum and enhancing price stability over the medium term. Monetary policy will continue to alternate between maintaining the status quo and tightening till the end of 2025, but the rate of acceleration will slow down. As a result, the CBN is expected to slow down its hawkish policy stance in 2025H2 to support economic growth while using other measures to rein in rising inflationary pressure in Nigeria.

Figure 19: Trend of Inflation in Nigeria (Percent)



Data: NBS 2025 (Revised CPI) | Forecast: NESG Research

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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