

Socio-Economic Updates

November 2024 Vol 1

Highlights

- Naira under pressure despite record FX reserves
- Concerns over T-bill yields reaching a record 29.87%
- Food import prices surge as FG delays implementation of duty-free food import policy
- Economic reforms enter “result-delivery” stage
- Implications of Donald Trump’s victory for Nigeria
- Dangote Refinery and IPMAN petrol-lifting deal
- FG proposes N47.9 trillion for 2025 budget

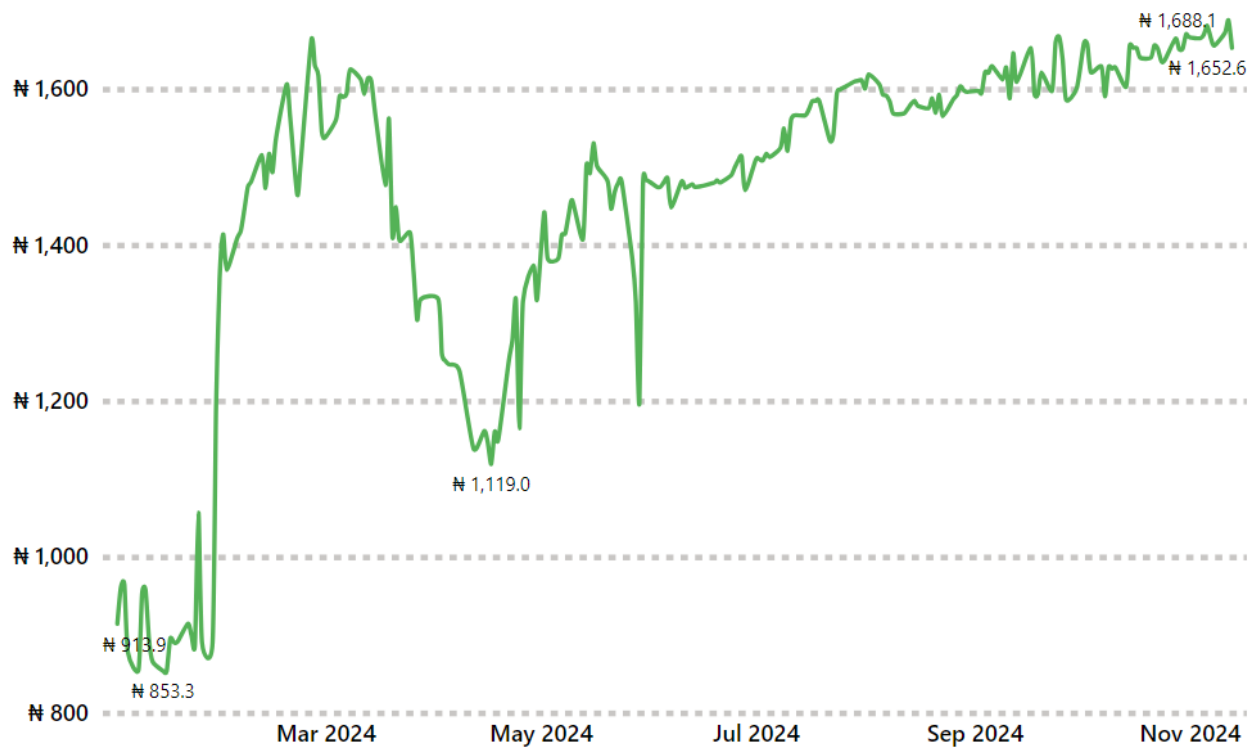


Naira Faces Persistent Pressure Despite Record FX Turnover & Rising Reserves



Even though Nigeria's daily foreign exchange (FX) turnover soared to an unprecedented **\$1.4 billion** in early **November 2024** and external reserves exceeded **\$40 billion**, the naira remains under significant pressure. The currency hit an all-time low of **₦1,688.1 per dollar** in mid-November, underscoring the ongoing difficulties confronting Nigeria's currency despite recent improvements in FX market liquidity.

Figure 1: Naira Year-to-Date Trend



Source: Central Bank of Nigeria (CBN) / Graph: ACIOE Analytics

Factors Driving Pressure on the Naira

The naira's depreciation is indicative of fundamental structural challenges and an increased demand for foreign currency. While the increase in FX reserves is a positive indicator, it has not eased the strain on the naira, which has seen significant depreciation in the parallel market in recent months. This may be attributed to limited dollar inflows from crude oil sales and the NNPC's efforts to fulfil its overdue obligations.

The CBN Strategy

As emphasized on several occasions by the Governor of the Central Bank of Nigeria (CBN), Yemi Cardoso, the CBN will continue to maintain a predominantly conservative policy stance, focusing on tightening liquidity while avoiding direct interventions in the foreign exchange market. The CBN has also made strides in improving transparency concerning activities in Nigeria's FX market, including the introduction of the FX matching scheme. These measures have contributed to an increase in foreign portfolio investor activity, with FPI inflows rising by more than 70 percent in the first half of the year compared to the same period in 2023. Nevertheless, additional efforts are required to tackle the fundamental issues causing the naira's decline, such as boosting non-oil exports and facilitating higher domestic production of goods and services.

Implications & Outlook

The sustained naira pressure poses inflationary risks, as the price of imported goods and services could heighten inflationary pressures. As the currency's value declines, inflationary pressures are likely to intensify, further complicating the Central Bank's goal of stabilizing prices amid a **32.7% inflation rate** as of September 2024.

Moving forward, maintaining FX reserves and managing turnover alone may not be enough to strengthen the naira. A combined approach focusing on bolstering non-oil exports, reducing import dependency, and enhancing dollar liquidity through diversified sources will be critical for achieving sustainable currency stability.

Nigeria's High Yield Investment Environment and Economic Implications



In the face of economic challenges and currency volatility, the Federal Government has leveraged high T-bill yields to attract foreign capital. With one-year T-bill yields now hitting a record high of **29.87%**, among the highest globally, the CBN has successfully attracted foreign investors back to Nigeria's capital markets, resulting in an increase of over \$1.5 billion in FX inflows over the past month. This influx has contributed to the growth of Nigeria's FX reserves, which, which reached **\$40 billion** in mid-November 2024.

For investors, Nigeria's high-yield investment environment offers an attractive alternative to U.S. dollar assets, which have become less competitive due to recent interest rate reductions by the US Federal Reserve.

However, despite rising capital inflows, the naira's structural weaknesses, including a high demand for imports, low export earnings, and limited diversification of foreign exchange sources, continue to hinder currency stability.



Source: MarketForces Africa

The high yields on T-bills have also impacted the domestic markets, increasing borrowing costs for Nigerian companies. With government debt instruments offering attractive returns, many corporations have scaled back bond issuance, leading to a **98 percent** decline in capital market activity between **Q4 2022** and **Q1 2024**. This crowding-out effect limits access to affordable capital for local businesses, potentially hindering private sector investment and economic expansion in sectors reliant on debt financing.

Short-Term Gains vs. Long-Term Stability

Although Nigeria's high-yield T-bills are attracting critical foreign exchange inflows and bolstering reserves, they offer only limited support for the naira in the short run but prove ineffective in the long term due to the burden they place on the government's debt position. While the high yields provide short-term benefits, their inability to stabilize the naira highlights broader economic weaknesses that necessitate structural reforms. To achieve lasting

economic stability in Nigeria, it will be crucial to tackle import dependency, enhance non-oil exports, and decrease dependence on high yields for currency support.

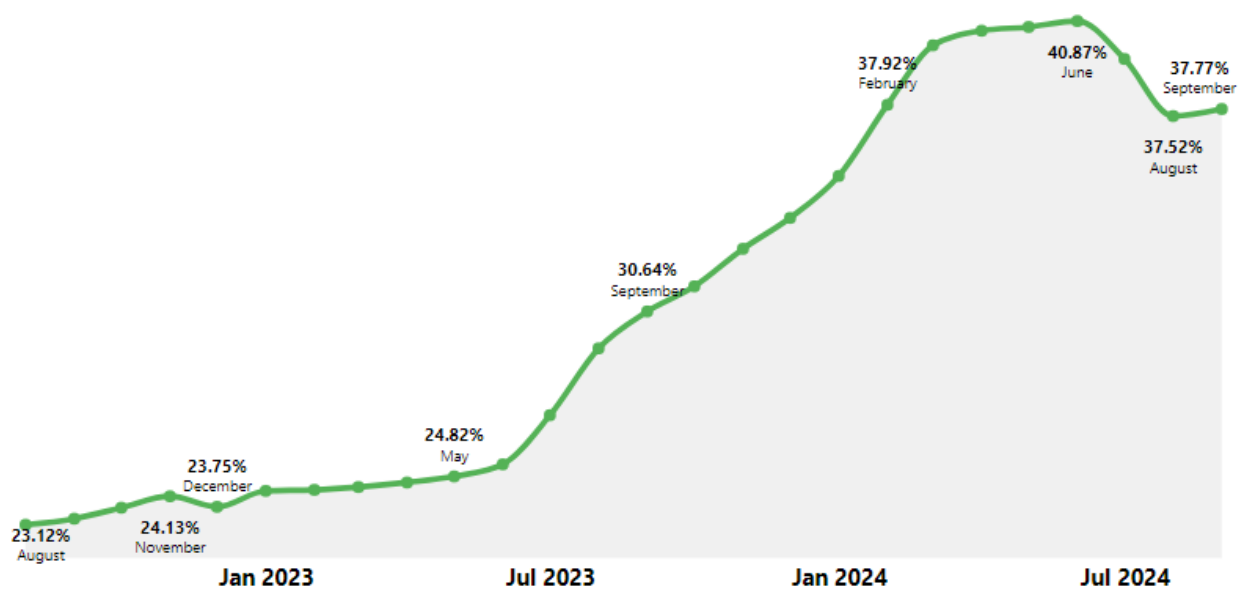
Food Import Prices Surge as Nigeria Delays Duty-Free Food Import Policy



In November 2024, Nigeria experienced a significant increase of **114% increase** in the price of imported rice. The cost for a 50kg bag of rice increased from **N49,103** in September 2023 to **N120,193** in November 2024. This situation underscores the strain caused by the delayed implementation of the government's 150-day duty-free food import policy. Announced in July 2024 as a response to soaring food prices, the policy sought to exempt essential food items from import duties. However, the delay in implementing the scheme has exacerbated inflation, with critical staples like rice remaining unaffordable for many Nigerians, putting over **33 million Nigerians** at risk of hunger.

The decision to postpone the policy is driven by several factors, including concerns over its impact on domestic rice production capacity, the potential impact on local farmers, and the fiscal difficulties the government faces given that the policy will result in a reduction in revenue from import duties.

Figure 2: Nigeria Food Inflation Trend



Source: National Bureau of Statistics (NBS) | Graph: ACIOE Analytics

In addition to the delayed implementation of the food import policy, food inflation has remained persistently high. After peaking at **40.87%** in June 2024, food inflation showed signs of moderation in July, with expectations of further relief following the announcement of the duty-free policy. However, the current delay threatens to push food inflation back **above 40%** as we approach the end of the year. Historically, food prices tend to rise sharply in the final months of the year due to increased demand during the festive period. With the zero-duty policy still not in place, these seasonal price increases are likely to be more severe than usual, exacerbating the strain on households.

The urgent need for the implementation of this duty-free policy has never been more apparent. If not enacted promptly, it could worsen the already precarious food security situation, affecting millions of Nigerians already grappling with high food prices.

Evaluating the Promising Signs of Nigeria's Reforms Amid Challenges



In November 2024, the Nigerian government confirmed that its economic reforms have reached the "results delivery" stage, signaling that the country is starting to witness outcomes from the tough policies implemented over the past year. While the administration praises the progress made, pointing to indicators of growth and reform outcomes, the true impact on Nigeria's economy remains complex and mixed.

Key positive signals were noted across several fronts. Nigeria's FX reserves hit **\$40 billion** in November 2024, the highest in 33 months, signaling some stabilization in the FX market. Additionally, the country has raked in **\$2.7 billion** from non-oil exports in the first half of 2024, a **6.26%** increase from same period last year, highlighting early successes in economic diversification efforts. Reforms in tax policy, such as the introduction of the Windfall Tax, are expected to boost revenue. These developments suggest some traction toward economic stability and diversification.

Challenges to Sustainability

However, these signs are not without their challenges. Despite the increase in forex reserves, Nigeria's forex market remains volatile, and Fitch has flagged the market's instability as a persistent issue. Similarly, in the latest Purchasing Managers' Index (PMI) report by Stanbic IBTC Bank, the Nigerian private sector faces challenges FX depreciation continues to drive up input costs. Furthermore, the country's tax collection rate continues to be relatively low. Recent tax reform initiatives plan to put the rate at single digits. As noted by the IMF during the recent IMF/World Bank Annual Meetings, Nigeria needs more robust tax reform to match Nigeria's economic potential. While diversification efforts have shown progress, security issues, such as attacks by herdsmen and kidnappers, are hampering growth in sectors like agriculture and tourism. Notable is the high-interest **rate environment**, dampening expansion initiatives in the private sector.

While indicators show that results are beginning to emerge, whether these early successes can be sustained in the face of security challenges, low tax compliance, high interest rates and inflation rate remains uncertain. The promise of these reforms hinges on Nigeria's ability to manage these persistent issues while nurturing the positive trends emerging from diversification efforts and improved reserves.

Trump's 2024 U.S. Election Victory: Implications for Nigeria's Economy



Donald Trump's re-election in **November 2024** and his emphasis on "**America First**" could have significant implications on Nigeria's economy across key areas such as trade, remittances, foreign aid, and foreign direct investment (FDI). In an economy already grappling with inflation, currency volatility, and an overdependence on oil revenue, Trump's policy stance could present new challenges as well as opportunities.



Source: Sky News

Oil Revenue Impact

With Trump's focus on U.S. energy independence, global oil prices could face downward pressure as shale oil producers could ramp up domestic production. For Nigeria, which depends heavily on oil exports for foreign exchange, lower oil prices have the potential to reduce critical foreign exchange earnings, further straining currency stability efforts.

Trade and AGOA Concerns

Under Trump's administration, there is uncertainty surrounding the potential extension of the African Growth and Opportunity Act (AGOA) beyond **2025**. AGOA presently provides duty-free access to U.S. markets for certain African goods. If AGOA is not renewed, Nigerian exports to the United States may face increased tariffs, which could undermine efforts to diversify the economy by boosting non-oil exports and could make it harder to offset oil revenue losses. Trump has shown a preference for bilateral trade agreements (BTA) over multilateral trade agreements. Nigeria might need to explore how a BTA with the United States could align with its trade and investment objectives.

To navigate this evolving landscape, Nigeria may need to consider BTAs, with the US. It may also need to consider alternative trade and investment partnerships while working to enable greater domestic productivity.

Remittances and FX Inflow

Remittances from Nigerians in the U.S. constitute a significant source of income, injecting approximately **30% of remittance inflows** annually. However, Trump's stricter immigration stance may reduce diaspora remittance flows, limiting FX inflows that are crucial for household spending and stabilizing the naira.

Foreign Aid and Security Assistance

Trump's emphasis on "**America First**" may lead to cuts in foreign aid, impacting Nigeria's healthcare, education, and counterterrorism funding. With internal security challenges and limited fiscal space, decreased aid would likely force Nigeria to allocate more resources domestically for essential services, diverting funds away from development and growth initiatives and further straining government resources.

Dangote Refinery and IPMAN Signed Petrol-Lifting Agreement



The recent agreement between the Dangote Refinery and the Independent Petroleum Marketers Association of Nigeria (IPMAN) marks a pivotal step in Nigeria's oil and gas sector. By enabling IPMAN members to lift petroleum products directly from the refinery, the deal is expected to lower petrol prices by reducing import costs and eliminating intermediary expenses.



Source: Intel Region

This development could also significantly **reduce** Nigeria's reliance on imported petroleum products. With petrol prices exceeding **₦1,000 per liter** in October 2024, increased domestic refining capacity offers hope for price reduction and supply security.

However, challenges remain as Nigeria's daily petrol consumption of **50 million liters** necessitates significant scaling of production at the Dangote Refinery, from its current daily supply level of about **25 million liters**, to meet demand fully.

Overall, the agreement has the potential to support improved competition in Nigeria's fuel market, reduce import dependency, and potentially drive down costs. For its success, complementary measures such as improved logistics and stable exchange rates will be critical to ensure sustained benefits for the economy.

Nigeria Proposes ₦47.9 Trillion 2025 Budget



On **November 14, 2024**, Nigeria's Federal Executive Council (FEC) approved a **₦47.9 trillion** budget proposal for the 2025 fiscal year. This proposed budget represents a significant increase from the **₦27 trillion** approved for 2024, underscoring a bold push for expansive fiscal policy despite revenue constraints.



Key Benchmarks

Oil Price and Production Targets

The 2025 budget sets an oil price benchmark at **\$75 per barrel**, slightly above the **\$73.96** benchmark for 2024. While current market prices hover at **\$74.83** and the US new president's plans to ramp up U.S. oil production, the potential for reduction in global oil prices is stronger. Oil production is targeted at **2.06mbpd** for 2025. A recent OPEC report sets production volume at **1.43mbpd** in **October 2024**, a decline from **1.44mbpd** in August 2024. The declining production volume and Nigeria's inability to meet its 2024 budget oil production target of **1.78mbpd** raise questions about the feasibility of achieving the ambitious target.

Exchange Rate Assumptions

The 2025 budget sets an exchange rate benchmark at **₦1,400/\$**, reflecting a sharp depreciation from the **₦800/\$** assumed in 2024. With the current market rate at **₦1,658.93/\$** (November 14, 2024) amid persistent FX shortages, achieving the assumed rate may be optimistic.

Debt Sustainability and the Fiscal Gap

The proposed budget includes a **₦13.8 trillion fiscal deficit**, approximately **3.87% of GDP**, to be financed through domestic borrowing, Eurobonds, and other external loans. With debt servicing already consuming **over 67 %** of revenue, the additional borrowing risks pushing Nigeria's debt-to-GDP ratio beyond sustainable levels (over **51%** in 2024). Furthermore, high borrowing costs due to elevated yields will further strain fiscal space, limiting investment in critical sectors like infrastructure, healthcare, and education.

Prospects for 2025 Budget

Over-reliance on optimistic oil and exchange rate benchmarks exposes the budget revenue to external shocks, particularly in volatile oil markets and foreign exchange.

Increased borrowing to finance the deficit could exacerbate inflation, which stood at **32.70%** in September 2024, further eroding household purchasing power.

Overall, the government's ambitious spending plans may spur short-term economic activity but could face implementation challenges if revenue targets fall short or debt pressures escalate.

Nigeria's Inflation Rises to 33.88% in October 2024 Despite Harvest Season

Nigeria's inflation rate climbed to **33.88%** in **October 2024**, up from **32.70%** in September, according to data released by the National Bureau of Statistics (NBS) on **November 15, 2024**. This marks the second consecutive monthly increase from August 2024 dip, highlighting the persistent economic challenges despite ongoing monetary tightening by the Central Bank of Nigeria (CBN).

Persistent Challenges

The inflation surge is primarily driven by food prices, with food inflation remaining elevated despite the harvest season, which typically eases price pressures. Disruptions in agricultural supply chains, compounded by rising transportation costs from high petrol prices, have kept food prices high.

CBN has implemented aggressive monetary policies, raising the Monetary Policy Rate (MPR) to **26.75%**, its highest level in decades, to combat inflation. However, the impact has been muted due to lingering structural inefficiencies, including currency depreciation and high energy costs. The naira's continued weakness, trading at over **₦1,650/\$** in mid-November, has further exacerbated import-driven inflation, particularly for food and energy.

Outlook

The rise in inflation during the harvest season underscores the severity of Nigeria's structural economic challenges. Addressing these issues will require coordinated efforts between fiscal and monetary authorities to stabilize food and energy prices, enhance domestic production, and manage exchange rate volatility. Without such measures, inflationary pressures are likely to persist, exacerbating the economic strain on households and businesses.