ASSOCIATES

Socio-Economic Updates

October 2024 Vol 2

Highlights

- IMF revises Nigeria's 2025 growth rate forecast
- Nigeria ranks fourth largest economy in Africa - IMF
- Nigeria seeks an extension of AGOA
- Nigeria imposes an export ban on cooking gas
- FG approves asset divestments by IOCs
- Implementation of the Naira-for-crude policy begins
- CBN introduces Non-Resident BVN to enhance remittance inflows

Nigeria's Economic Outlook: Balancing Optimism with Persistent Challenges

In October 2024, during its annual meeting, the International Monetary Fund (IMF) projected a 3.2% growth in Nigeria's GDP for 2025. Inflation is also expected to decline to 25% in 2025. This favorable outlook comes despite ongoing macroeconomic challenges, including elevated inflation, rising energy prices, and significant currency depreciation. Although these forecasts suggest a positive trajectory, prevailing economic conditions raise questions about the feasibility of achieving this optimistic outlook.

Figure 1: Nigeria Annual GDP Growth Trend

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

Headwinds to Growth: Inflation, Productivity Constraints, and Foreign Exchange Pressures

Nigeria's inflation rate increased from 32.15% in August to 32.70% in September 2024, driven by a 48% surge in petrol prices, following the deregulation of the PMS sector, which pushed pump prices above ₦1,000 per liter. In addition, food inflation remains a significant contributor to headline inflation, as recent floods across multiple regions have disrupted food supply chains.

The sharp 72% depreciation of the naira against the dollar has compounded the rise in import costs, casting doubt on the IMF's inflation target of 25% for 2025. Foreign exchange pressures are further intensified by declining oil revenues, with production levels dropping to 1.324 million barrels per day (mbpd) in September 2024, a decrease of 27,000 barrels per day from the previous month. Global oil price volatility has added to the challenges, prompting the IMF to lower Nigeria’s 2024 growth forecast three times in the year, from 3.3% in April, to 3.1% in July, and finally to 2.9% in October.

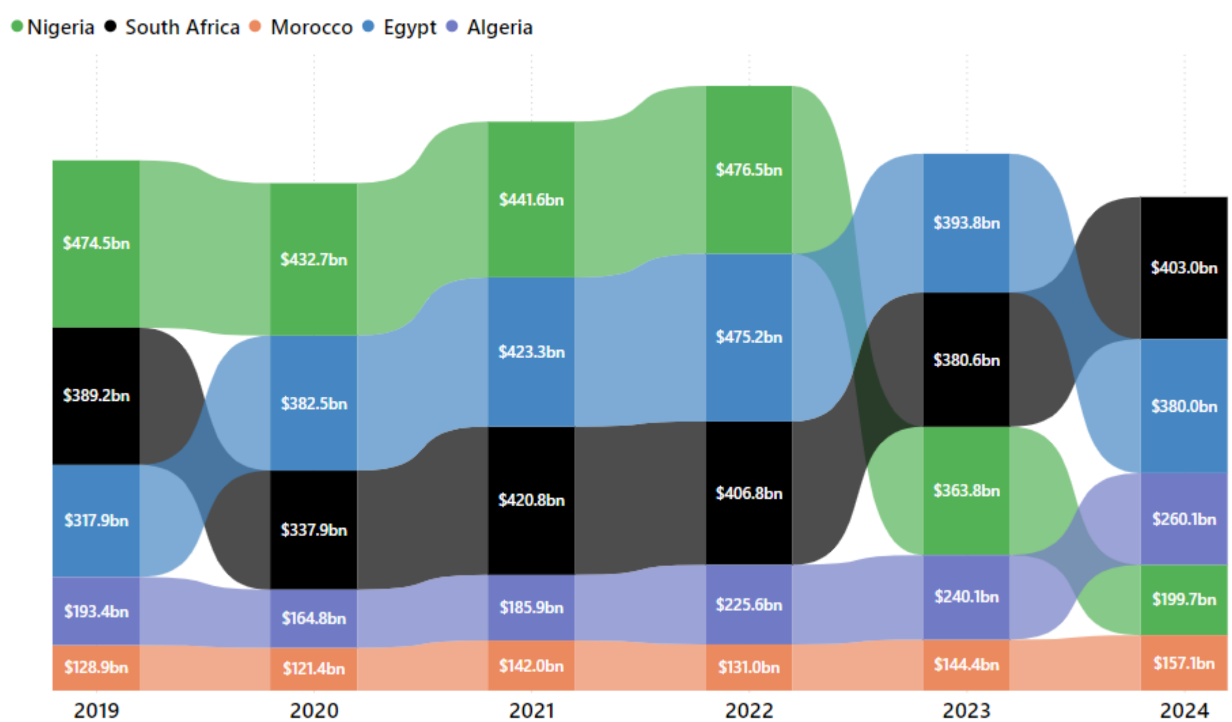
Economic Outlook: Balancing Optimism with Realities

In the face of persistent inflation, currency depreciation, and structural inefficiencies, the IMF's prediction of 3.2% GDP growth and 25% inflation for Nigeria by 2025 would require concerted actions by the fiscal and monetary authorities in addressing the headwinds to growth.

Nigeria's Economic Prospects: Navigating Challenges with Potential for Growth

The International Monetary Fund (IMF) projects that Nigeria could become Africa's fourth-largest economy by the end of 2024, behind South Africa, Egypt, and Algeria. This reflects ongoing structural and macroeconomic challenges, such as high inflation, currency volatility, and heavy reliance on oil revenues. However, it also underscores the opportunities for Nigeria to implement reforms that could foster long-term stability and resilience. Nigeria's GDP is expected to decline from $363.8 billion in 2023 to $199.7 billion in 2024, positioning it behind South Africa ($403 billion), Egypt ($380 billion), and Algeria ($260 billion).

Figure 2: Top 5 GDP Rank in Africa (2019 – 2024)



Source: Statista | Graph: ACIOE Analytics

Key Challenges and Opportunities for Improvement

Several factors contributed to Nigeria's projected decline in GDP ranking. Persistent inflation, which reached 32.70% in September 2024, has increased the cost of living and doing business. Additionally, the 72% depreciation of the naira has further challenged the economy. Nigeria's dependency on oil, coupled with global oil price fluctuations, highlights the need to diversify its economic base. While growth in non-oil sectors like manufacturing and agriculture has not fully offset the losses in the oil sector, it provides a foundation upon which Nigeria can build a more diversified and resilient economy.

Implications and the Path to a Stronger Economic Standing

The anticipated shift in Nigeria's GDP ranking could have far-reaching implications. Domestically, there is a risk of reduced investor confidence, as investors typically favor stable and growing markets. However, by addressing currency stability and improving security in oil-producing regions, Nigeria could re-attract foreign direct investment (FDI) that might otherwise be directed toward countries like Egypt and South Africa. Internationally, a more stable and diversified economy would not only enhance Nigeria's economic resilience but also bolster its influence within regional bodies like the African Union (AU).

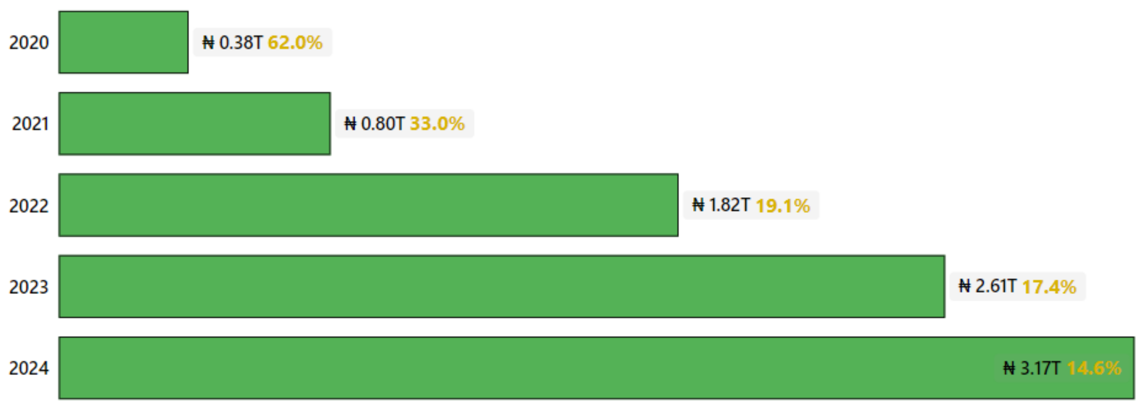
Leveraging Reform for Sustainable Growth

To harness its growth potential, Nigeria must act decisively. Key areas for reform include stabilizing the exchange rate, enhancing security, and investing in high-potential sectors such as agriculture, manufacturing, and technology. Drawing on successful models from countries like Indonesia and Vietnam, Nigeria can pursue targeted reforms to build investor trust, support non-oil sector growth, and lay the groundwork for sustainable development. While challenges remain, these strategic actions could position Nigeria for a stronger economic future and enhance its standing both regionally and globally.

Nigeria's Request for AGOA Extension: Sustaining Trade Opportunities Amid Economic Diversification

In October 2024, Nigeria formally requested an extension of the African Growth and Opportunity Act (AGOA) beyond 2025 to preserve duty-free access to U.S. markets—an essential component of its economic diversification strategy. Trade under AGOA has grown significantly, from ₦382.2 billion in 2020 to ₦3.17 trillion in 2024, underscoring the program's importance. While the U.S. share of Nigeria's total exports declined from 62 percent to 14.6 percent, AGOA remains critical for non-oil export growth in sectors such as textiles, leather, and agriculture, particularly in the context of Nigeria's broader economic challenges.

Figure 3: Trend in Nigeria to USA Export Volume (2020 – 2024)



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

Risks and Implications of AGOA Non-Renewal

As the United States reevaluates trade policies with a heightened focus on fair trade, human rights, and governance standards, AGOA eligibility now requires stronger compliance. Recent suspensions, such as Ethiopia's in September 2024, illustrate this shift in U.S. trade policy.

Should AGOA not be extended, Nigeria's exports, especially in textiles, leather, and agriculture, could lose their competitive position in the U.S. market due to the imposition of higher tariffs. This scenario poses risks to Nigeria's economic diversification efforts, potentially leading to reduced production and job losses, and countering recent policy measures that support local manufacturing and tax reform.

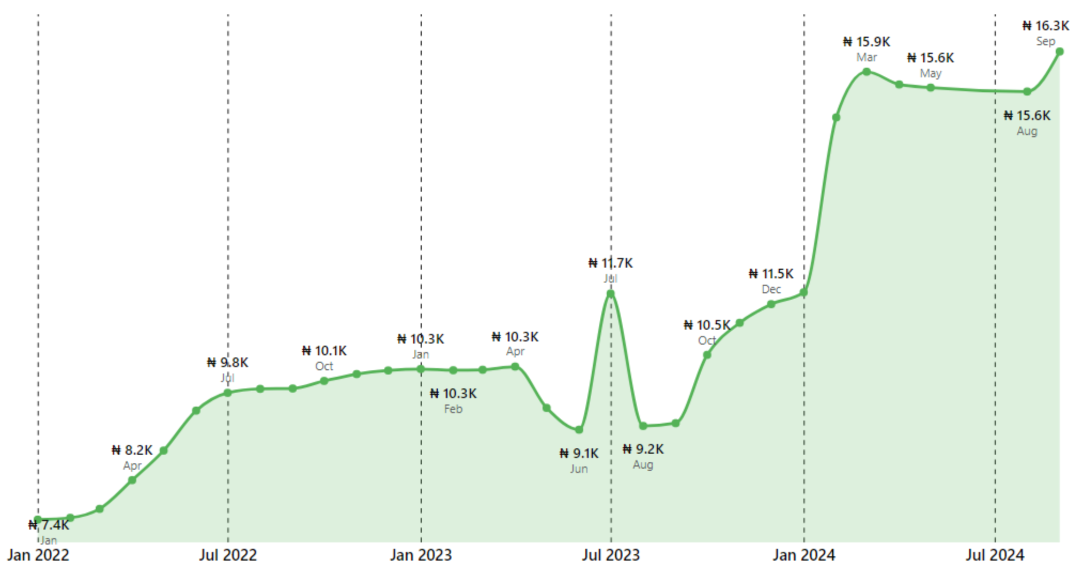
To mitigate these risks, Nigeria may explore other bilateral trade agreements with the United States or increase its focus on intra-African trade through the African Continental Free Trade Area (AfCFTA). Expanding trade partnerships beyond AGOA would help Nigeria diversify its market access and lessen the economic impact if AGOA benefits are discontinued.

Nigeria to Ban Export of Cooking Gas from November 1

To stabilize cooking gas prices for Nigerian households, the Federal Government will impose an export ban on cooking gas starting November 1, 2024. This measure aims to increase domestic supply and alleviate financial pressure, as the cost of a **12.5kg** cylinder more than doubled from **₦7,413** in January 2022 to **₦16,313** in September 2024, according to the National Bureau of Statistics.

Rising global energy prices and domestic logistics challenges have intensified the need for swift action by the Federal Government, as it seeks to widen the social safety net in the face of the rising cost of living in the country.

Figure 4: Monthly Avg Price of Refiling a 12.5kg Gas Cylinder

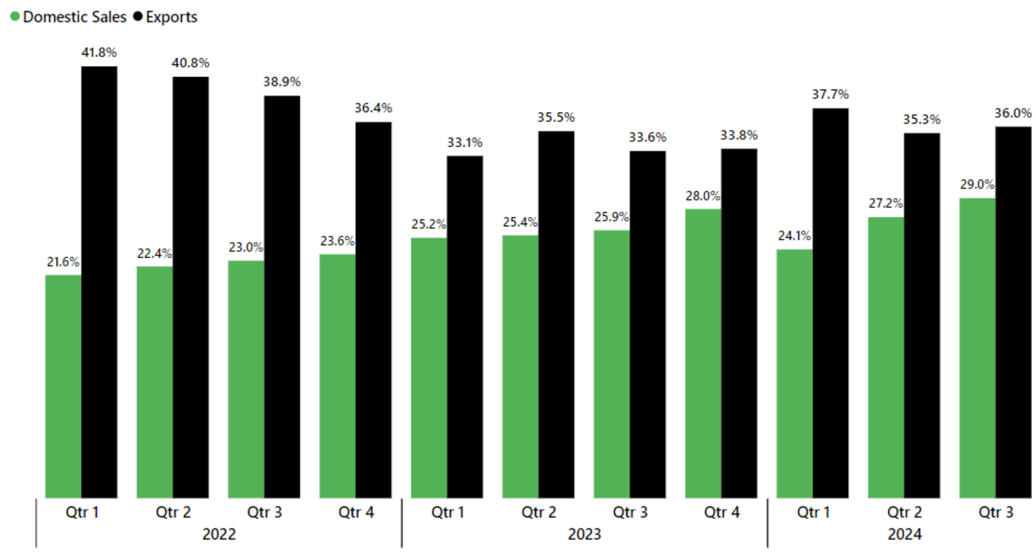


Source: National Bureau of Statistics (NBS) | Graph: ACIOE Analytics

Implications & Feasibility of the Exports Ban

The government's export ban aims to redirect up to 36 percent volume of liquefied petroleum gas (LPG) production of exports, towards the domestic market, which currently receive only 29 percent as of Q3 2024. This shift is expected to boost local supply and help ease prices. However, the full impact remains uncertain, as transportation costs, currency depreciation, and infrastructure challenges may keep prices high.

Figure 5: Domestic Gas Sales vs Export Sales



Source: Nigerian Upstream Petroleum Regulatory Commission | Graph: ACIOE Analytics

Additionally, the potential for smuggling or non-compliance could limit the impact of the ban. Monitoring and strict enforcement mechanisms are critical, alongside policies to boost local LPG production and distribution.

Four IOCs get Nigeria FG Nod to Sell Assets

On October 21, 2024, the Nigerian Federal Government granted approval for four major International Oil Companies (IOCs) to divest from their onshore and shallow-water assets. This move is part of a strategic effort to increase indigenous participation in Nigeria's oil and gas sector, aligning with the country's local content goals.

Divestment Request **5**

4 approved

Asset Involved

6.73 billion barrels of crude oil and condensate

56.27 trillion cubic feet of gas

Divesting

1. Mobil Producing Nigeria Unlimited
2. Equinor Nigeria Energy Company Limited
3. TotalEnergies EP Nigeria Limited
4. Nigerian Agip Oil Company Limited

Acquiring

1. Seplat Energy Offshore Limited
2. Project Odinmin Investments Limited
3. Telema Energies Nigeria Limited
4. Oando Petroleum and Natural Gas Company

Shell Petroleum Development Company Limited's divestment request pending approval

Opportunities & Concerns

Nigeria's local content strategy aims to strengthen indigenous participation in the oil sector, generating over $1 billion annually through employment and contracting. By transferring asset ownership to indigenous firms, the government seeks to increase local employment, retain revenue, and stimulate growth.

However, the Petroleum and Natural Gas Senior Staff Association of Nigeria (PENGASSAN) notes significant financial constraints for these local firms, which often lack the capital needed for acquisitions valued in the billions. Limited funding from local banks underscores this gap. Furthermore, indigenous firms must comply with environmental and maintenance standards previously managed by international operators, adding pressure to ensuring sustainable and productive operations.

Naira-for-crude: Dangote gets NNPCL's first supply

In a historic move, Nigeria launched the "Naira-for-Crude" policy, delivering the first crude supply to Dangote Refinery under this initiative in **mid-October 2024**. This policy aims to curb foreign exchange outflows by allowing payments for domestic crude in naira instead of U.S. dollars. Expected impacts include bolstering FX reserves, reducing dollar demand, and strengthening Nigeria's industrial base.

Source: Nairametrics

However, pricing crude at the prevailing NAFEM rate could lead to higher prices at the pump if currency volatility persists. With fuel price already above **₦1,000 per liter**, further naira depreciation could lead to increase in pump price and additional inflationary pressures.

CBN's Non-Resident BVN Initiative:
A Strategic Move to Strengthen Diaspora Engagement & Boost Formal Remittance Flows

In October 2024, the Central Bank of Nigeria (CBN) Governor announced the launch of a Non-Resident Bank Verification Number (BVN) platform, set to go live in December. This platform managed by the Nigeria Inter Bank Settlement System (NIBSS), aims to simplify access for Nigerians in the diaspora, allowing them to remotely fulfill Know Your Customer (KYC) requirements and manage local bank accounts from anywhere globally. It will also eliminate the need for physical presence at biometric verification centers. CBN Governor Yemi Cardoso emphasized that this initiative is part of a broader strategy to deepen financial inclusion and integrate diaspora Nigerians more closely with the local economy, particularly through formal remittance channels.

This Non-Resident BVN platform is anticipated to positively impact Nigeria's economy by enabling easier participation in the Nigerian financial system for millions of Nigerians abroad. By simplifying the BVN registration process, CBN addresses a key barrier that has limited diaspora access to local banking services and formal remittance channels. Given that unofficial channels account for a significant share of remittances, the non-resident BVN could redirect these funds through legal avenues, enhancing transparency and increasing Nigeria's remittance inflows.

Remittance inflows through official channels have risen from $238.6 million in January 2024 to $600 million per month in August 2024, a figure the CBN aims to double to $1 billion.

The non-resident BVN platform, coupled with recent approvals for multiple International Money Transfer Operators (IMTOs), is anticipated to support this ambitious target. For Nigeria, which faces reduced foreign exchange earnings from crude oil exports, boosting remittances is critical to stabilizing the currency. The CBN's initiative aligns with Nigeria's broader economic strategy to diversify revenue sources and leverage diaspora contributions more effectively.