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Nigeria Economic Update

2024 Review and 2025 Outlook

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1. Executive Summary

The Nigerian economy in 2024 was defined by two critical reforms that sought to address fiscal imbalances and long-standing structural inefficiencies. In 2024, the Central Bank of Nigeria (CBN) continued with efforts to unify the exchange rate. It also adopted an aggressive monetary tightening policy, raising the Monetary Policy Rate (MPR) by 875 basis points to 27.5%. This action attracted over $6 billion in foreign portfolio inflows (FPIs) and increased Nigeria's FX reserves by $7.7 billion, reaching $40.7 billion by year-end. Diaspora remittances also rose sharply, with inflows through International Money Transfer Operators (IMTOs) totaling $4.22 billion between January and October 2024, a 61% increase over the same period in 2023. This remarkable growth was bolstered by the introduction of the willing buyer-willing seller model and the licensing of new IMTOs. Additionally, the CBN cleared a substantial portion of the FX backlog, settling over **$6 billion** in overdue FX obligations, which restored confidence among investors and enhanced liquidity in the FX market.

However, the removal of fuel subsidies and the unification of exchange rates contributed to significant inflationary pressures, with inflation peaking at 34.6% in November 2024. Despite revenue gains from subsidy removal and the 56 percent depreciation of the naira in 2024, rising debt service costs, consuming 58% of revenues, and recurrent expenditures widened the fiscal deficit and constrained spending on much-needed capital investment. To bridge funding gaps, Nigeria returned to the Eurobond market for the first time in three years, raising $2.2 billion at an average yield of 10.3%.

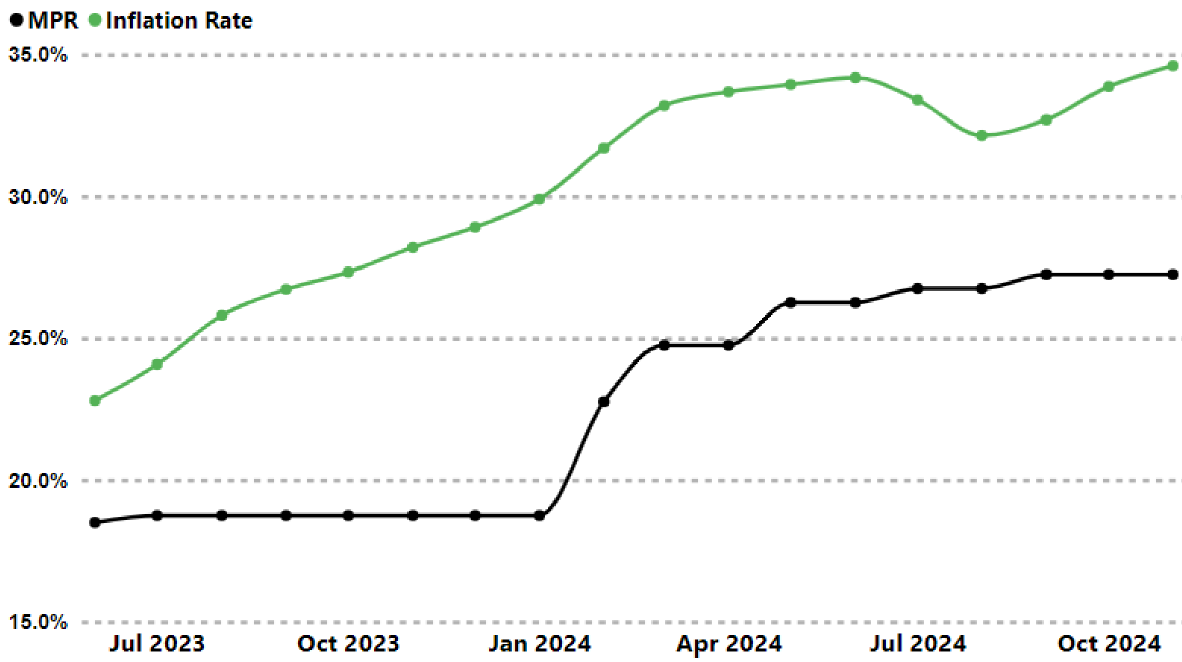
Looking ahead, GDP growth is projected at 3.8% in 2025 up from an estimate of 3.1 percent in 2024, supported by the operationalization of the Dangote Refinery, gradual recovery in agriculture and manufacturing, and continued growth in services. Oil production is expected to remain below pre-COVID levels of 2m barrels, constrained by insufficient investments, while external risks such as oil price volatility, global trade fragmentation, and political resistance to tax reforms remain key challenges.

2. 2024 Review: Key Developments

Inflation remained a central economic challenge in 2024, reaching 34.6% by November. The removal of fuel subsidies caused petrol prices to rise by over 400%, significantly increasing transportation and logistics costs, which cascaded across supply chains. Exchange rate unification led to the naira depreciating by 56% in 2024, settling at N1,620/USD by year-end in the parallel market and at N1530/$ in the official market, further exacerbating inflation by raising import costs for essential goods such as food and pharmaceuticals. Agricultural inflation was particularly pronounced, driven by adverse climatic conditions, including flooding and higher input costs, which disrupted food production and supply chains. The agricultural sector grew by only 1.1% in Q3 2024.

The economic pressures of 2024 had severe social implications, particularly concerning food security and malnutrition. The combination of shrinking disposable incomes and soaring food prices led to a notable increase in malnutrition cases. An estimated 2 million children in Nigeria suffer from severe acute malnutrition (SAM), with only two out of every ten affected children currently receiving treatment.

Figure 1: Inflation vs MPR trend in Nigeria, June 2023 – Nov 2024



Source: Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS)

With regards to Nigeria's revenue profile, oil production rose modestly by over 100,000 barrels per day (bpd) compared to December 2023, reaching approximately 1.42 million bpd, but remained below pre-COVID levels of 2 million bpd and the OPEC quota of 1.5 million bpd. This underperformance limited foreign exchange inflows from crude oil sales. However, domestic refining capacity improved with the partial operationalization of the Dangote Refinery and the Port Harcourt Refinery, reducing Nigeria's reliance on imported refined products.

Diaspora remittances emerged as a key stabilizing factor in the FX market, contributing $4.22 billion in inflows between January and October 2024. The CBN's introduction of the EFEMS automatic matching scheme and licensing of additional IMTOs supported the significant growth in remittance flows, which complemented FPIs and crude oil earnings in stabilizing FX reserves.

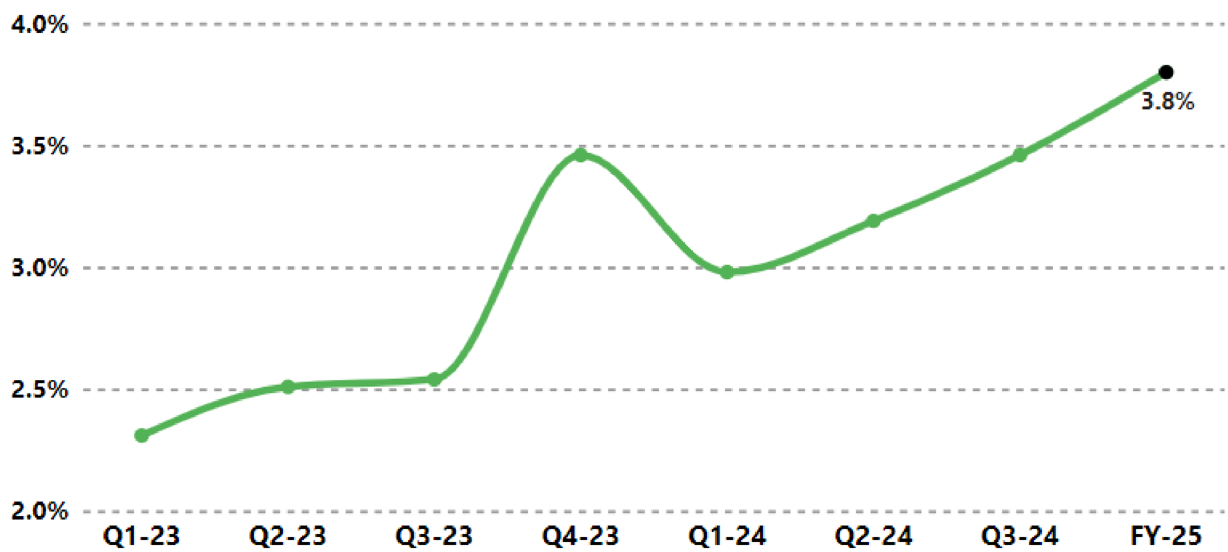
Nigeria's trade balance in the first three quarters of 2024 improved due to import compression driven by the naira's depreciation, which reduced demand for non-essential imports and marginal improvements in export volumes. Crude oil and gas accounted for over 87% of total exports, while non-oil exports contributed slightly over 10%, underscoring the lack of diversification in Nigeria's export base. Total trade in Q3 2024 stood at N35.1 trillion, with exports accounting for 71%.

3. 2025 Outlook

GDP growth in 2025 is projected at 3.8%, driven by a combination of increased domestic refining capacity, gradual recovery in agriculture and manufacturing, and steady expansion in services. The operationalization of the Dangote Refinery is expected to add 0.5% to GDP growth by reducing the country's reliance on imported refined products and increasing FX earnings from exports of refined petroleum. However, oil production is expected to remain below pre-pandemic levels due to underinvestment in exploration and production, which may constrain FX inflows from crude oil exports.

The fiscal outlook remains constrained. The government is projecting a fiscal deficit of N13 trillion in 2025, with debt servicing costs (N15.8 trillion) expected to exceed combined spending on education, security, health, and infrastructure. Oil production is forecasted at 2 million barrels per day at an assumed price of $75 per barrel, but production is likely to fall short due to insufficient investments. Additionally, oil price volatility, driven by increased production from non-OPEC members such as the United States, could put downward pressure on global crude prices, further straining Nigeria's fiscal position.

Figure 2: Quarterly GDP Growth Rate, Q1 2023 to Q3 2024, 2025 Projected



Source: Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS)

To address fiscal challenges, the government has proposed tax reforms aimed at broadening the revenue base. These include expanding VAT coverage to informal sectors and introducing progressive income tax structures targeting higher earners. However, political resistance, particularly from northern states opposed to changes in VAT remittance rules—may delay implementation. Despite this, the reforms are expected to pass with adjustments to address regional concerns.

In addition to tax reforms, asset monetization will be critical for bridging revenue gaps. The government plans to sell or lease idle public assets, including underutilized oil fields and government properties, to generate immediate FX inflows. This strategy, if executed effectively, could provide fiscal relief and reduce reliance on external borrowing.

4. External Risks

External risks to the 2025 outlook include oil price volatility and global monetary tightening. Increased U.S. oil production under a potential Trump administration could depress global oil prices, impacting Nigeria's revenues. Additionally, global trade fragmentation and geopolitical tensions could disrupt supply chains, reducing export opportunities. Concerns about inflationary pressures in advanced economies, particularly the U.S. and the UK, may lead to tighter monetary policies, triggering capital outflows from emerging markets like Nigeria and reducing FX inflows. These risks, while moderate, could complicate Nigeria's efforts to stabilize its FX market and attract investments.

5. Conclusion

While 2024 laid the foundation for structural reforms, 2025 will test Nigeria's ability to sustain these measures amid fiscal constraints and external uncertainties. Tax reforms, asset monetization, and export diversification will be critical for improving fiscal sustainability and macroeconomic stability. By addressing the structural bottlenecks in agriculture, manufacturing, and energy production, Nigeria can unlock its growth potential and reduce its vulnerability to external shocks. Proactive policy execution and strategic investments will be essential in navigating the challenges ahead and ensuring a sustainable path toward economic resilience.