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Nigeria Economic Outlook 2024

Seven trends that will shape the Nigerian economy in 2024

Our latest Nigeria Economic Outlook, highlights the seven key trends that will shape the nation's economic trajectory in 2024. The report projects a marginal decline in inflation and 3.1% rise in GDP, and notes that achieving sustainable growth in 2024 requires balancing ambitious fiscal reforms with effective budget implementation. It also stresses the importance of aligning fiscal and monetary policy to stabilise prices and reach target goals.

01 Executing fiscal reforms: balancing ambition with budgetary implementation

Nigeria's ambitious revenue targets for 2024 depend heavily on oil prices and reform implementation. Historically, actual revenue realised has averaged less than 70% of the total budget. Achieving budgeted oil revenue in 2024 will depend on OPEC oil production quota, international oil prices, improved security in the oil-producing regions, and geopolitical factors.

The proposed fiscal reforms have potential to boost non-oil revenue and shape the economy, but success hinges on effective budgeting and execution.

02 Evolving monetary policy stance: finding the right framework and instruments to achieve price stability

CBN has deployed several monetary policy tools and instruments to achieve price stability. Despite the deployment of monetary policy tools, the inflationary pressure has persisted. To succeed, the Central Bank of Nigeria (CBN) must independently pursue inflation goals, emphasising inflation control, and maintaining a stable financial system.

Finding coherence and alignment between fiscal and monetary policy to stabilise prices may enable the achievement of statutory and policy targets in 2024. CBN clarity of policy, transparency of market operations and consistent communication will enhance stability to exchange rate price discovery and market activities.

03 Investors' will be cautiously optimistic

Foreign portfolio investment flows to the capital market may remain cautious due to residual challenges. Investors' outlook may be dampened by downgrades from FTSE Russell and MSCI, specifically due to delays in capital repatriation. Despite this, Moody's, Fitch, and S&P maintained a speculative credit rating due to drawbacks on reforms and several fiscal challenges that persist.

FDI flows are expected to improve in 2024 driven by notable expansion in the growing ICT and Manufacturing sectors.

04 Undulating pathways to unlocking productivity in the economy

Limited fiscal space for public investment and difficulty attracting private investments constrain the ability to make essential infrastructure improvements.

Infrastructure funding may remain insufficient in 2024. The allocated infrastructure spending budget for 2024 is ₦1.32 trillion, falling short of both the World Bank's suggested 70% infrastructure-to-GDP benchmark (currently at 30%) and the yearly $150 billion requirement specified in the National Integrated Infrastructure Master Plan for 2021- 2025.

Security spending in the past nine years amounted to ₦14.8 trillion. Despite increased spending, insecurity remains a challenge and jeopardises national stability, negatively affects economic activities and undermines investor confidence.

05 Persisting vulnerability to external pressures with potential of 'shocks'

Geopolitical, economic, environmental, political and trade trends will shape the dynamics and outlook for the Nigerian economy in 2024. If the Russia-Ukraine war intensifies, it could lead to increased global energy and commodity supply risks.

Nigeria may experience increased inflation and food security challenges due to grain import disruptions and high petroleum product cost.

The outcome of elections in several countries globally, especially USA, UK, and Taiwan may shape the dynamics of trade and capital flows around the world in 2024.

06 Consumers may likely adjust better to the evolving policy and macro realities

Consumer spending may be pressured in 2024 due to rising prices of goods and services (increasing food and transportation costs), coupled with lower disposable income. However, private consumption is expected to be marginally better than 2023.

Poverty levels are projected to increase to 38.8% in 2024. Despite the high unemployment rate in the country, low consumer spending and purchasing power remains an issue, especially in the absence of commensurate increase in minimum wage to mitigate the inflationary growth in the economy.

07 Improved sectoral development riding on reforms

GDP may grow marginally by **3.1%** in 2024 on the back of sustained policy reforms albeit growth prospect limitations by elevated economic pressures.

The growth projection is driven by but not limited to ongoing reforms, recovering oil production, and a proactive policy environment. Possible risks to the projection include sustained rise in fiscal debt, elevated interest rates, high inflationary levels, foreign exchange liquidity pressures, poor non oil revenues and sector development.

In terms of sectors, the main drivers of GDP growth have been the financial services, information and communication, and utilities sector. We expect these sectors to continue to drive growth in the short term.

The outlook

- GDP may grow marginally by **3.1%** on the back of sustained policy reforms albeit growth prospects may be limited by elevated economic pressures.
- Fiscal sustainability concerns may remain slightly elevated given debt servicing costs (**89%** of the budgeted fiscal deficit is to be financed by new borrowings).
- Inflation is expected to decline marginally, balancing the effects of reforms, policy actions, external pressures and food prices.

Impact and implications on businesses in 2024

- Consumer spending recovery may begin in the second half of the year as inflationary pressures ease.
- Expected improved stability in the foreign exchange market in the second half of the year may reduce the imported cost of raw materials and finished goods.
- The marginal decline in inflationary growth may lead to a slight reduction in Selling, General, and Administrative (SG&A) expenses in the medium term.
- Continued tightening of monetary policy rate may keep borrowing costs elevated in the short term.

This article is an excerpt of our Nigerian Economic Outlook 2024, which is accessible here: https://www.strategyand.pwc.com/a1/en/insights/nigeria-economic-outlook.html

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