2024 ECONOMIC REVIEW: DOMESTIC (NIGERIAN) ECONOMY

NIGERIA'S 2024 ECONOMIC SNAPSHOT

2024 Macroeconomic Indicators

	Jan - 2024	Dec - 2024	Percentage Change (%)
GDP Growth Rate	2.8%	3.46%	0.48%
Inflation Rate	29.90%	33.88%	3.98%
Exchange Rate	988.46	1672.69	69.22%
Exchange Rate: Parallel Market	1,210.00	1,755.00	45.04%
Unemployment	5.4%	4.3%	1.1%

2024 Monetary Policy Indicators

	Jan - 2024	Dec - 2024	Percentage Change (%)
Monetary Policy Rate (MPR)	18.75%	27.50%	8.75%
Cash Reserve Ratio	32.50%	50.00%	17.50%
Assymetric Corridor Around MPR	+100/- 300bps	+500/- 100bps	
Liquidity Ratio	30.00%	30.00%	

2024 Oil and Gas Sector

	Jan - 2024	Dec - 2024	Change (%)
Crude Oil Production (mbpd)	1.43	1.33	
Crude Oil Price: Brent	75.86		
Crude Oil Price: WTI	71.97	68.10	
Petroleum Revenue	2.38	4.09	71.85

Source: NBS. Bloomberg, CBN, , NUPRC, DMO, , FMDQ, United Capital Research

NIGERIA'S 2024 ECONOMIC SNAPSHOT

2024 Fiscal Policy and Government Finance

	Jan - 2024	Dec - 2024	Percentage Change (%)
Domestic Debt (N'tn)	59.12	71.22	20.47
Foreign Debt (N'tn)	38.22	63.07	65.03
Tax Revenue (N'tn)	3.31	3.81	15.11
Oil Revenue (N'tn)	2.38	4.09	71.85
Fiscal Deficit (N'tn)	9.58	4.05	-57.72
Recurrent Expedtiture (N'tn)	5.46	4.37	19.96
Capital Expenditure (N'tn)	4.82	3.55	26.35

2024 Trade and External Sector

	Jan - 2024	Dec - 2024	Percentage Change (%)
Foreign Reserve ($'tn)	33.02	40.26	21.93
Foreign Direct Invest ($'bn)	0.38	0.15	-60.53
Foreign Portfolio Invest ($'bn)	1.15	3.48	202.61
Remittances ($'bn)	4.90	5.35	9.18
Current Account Balance (Net Inflows Vs. Net Outflows) ($'bn)	3.35	5.15	53.73

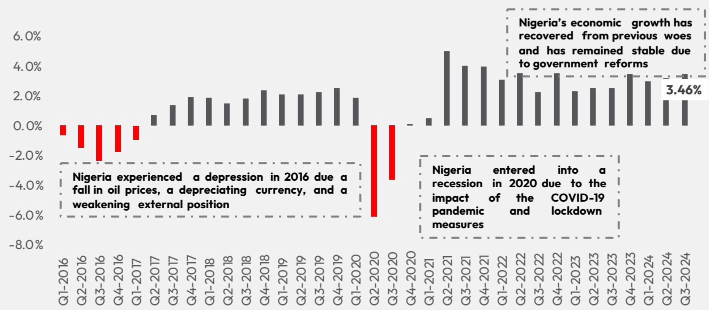
Source: NBS. Bloomberg, CBN, , NUPRC, DMO, , FMDQ, United Capital Research

REAL SECTOR

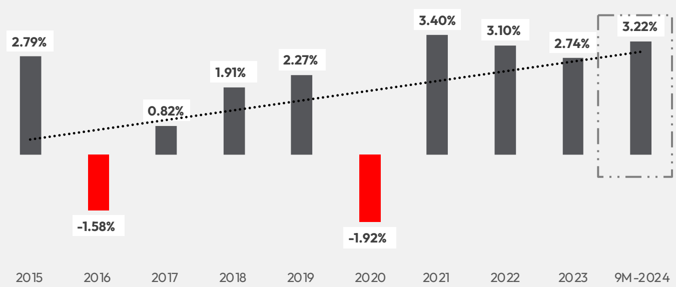
- Economic Growth
- Crude Oil Production
- Inflation

NIGERIA'S ECONOMIC GROWTH MAINTAINED A STABLE MOMENTUM IN 2024

Nigeria's Gross Domestic Product (GDP)



Full-Year GDP Growth



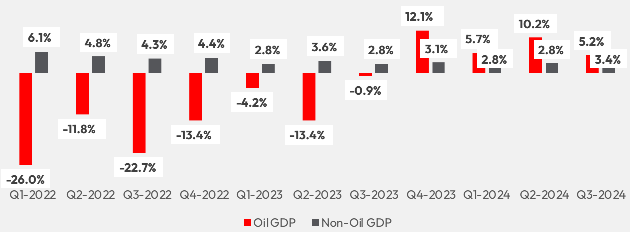
- The Nigerian economy remained resilient in 2024, growing at a faster pace compared to 2023.
- Economic growth in H1-2024 was steady despite the continued headwinds in the macroeconomic environment.
- Nigeria's real GDP grew by 3.46% y/y in Q3-2024, 92bps increase from 2.54% growth in Q3-2023 and 27bps increase from 3.19% growth in Q2-2024.
- Non-oil sector was the main driver of economic growth, accounting for 94.43% of Nigeria's GDP in Q3-2024. The sector grew by 3.37% y/y in real terms in Q3-2024, 57bps higher than the 2.80% y/y in Q1-2024.
- Similarly, the growth in Q2-2024 is 62bps higher than the 2.75% y/y growth recorded in the same quarter of 2023 due to improved economic activities despite a challenging macroeconomic environment.
- The IMF has indicated that the economy will moderate at 2.90% in 2024 same as 2023 actual GDP.
- IMF's cautious outlook for Nigeria stemmed from significant risks such as political uncertainties, slow implementation of reforms, structural issues, FX instability, inflationary pressure, elevated interest rates, infrastructural deficit, insecurity, volatile oil prices, subpar crude oil production and external shocks.
- Subsidy removal and FX liberalization hold potential, but their short-term economic costs may prevent immediate benefits.

Source: NBS, United Capital Research

ECONOMIC GROWTH: OIL GDP REBOUNDS

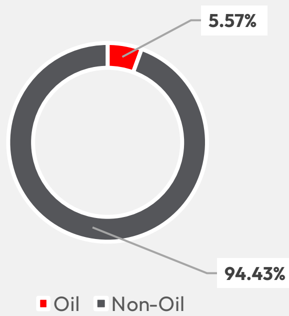
Growth in the oil sector has rebounded in recent quarters compared to previous periods of contractions

Oil GDP vs Non-Oil GDP



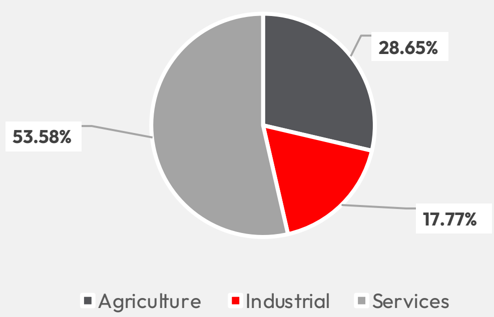
The non-oil sector accounts for the bulk of Nigeria's GDP, accounting for 94.43% of Nigeria's Q3-2024 GDP

Contribution to GDP



The service sector remains the major contributor to Nigeria's GDP

Contribution to GDP



- The oil sector recorded an impressive growth of 5.17% y/y in Q3-2024 in real terms, indicating an increase of 602bps compared to the contraction of 0.85% y/y in the corresponding quarter of 2023. Meanwhile, it marks a slower pace of growth when compared to the +10.15% y/y recorded in Q2- 2024.

- This marks the fourth (4th) consecutive quarter of expansion in the oil sector. The impressive performance came on the back of the improvements in crude oil production during the quarter following the Federal Government's efforts in combatting oil theft and pipeline vandalism.

- Notably, average daily oil production printed at 1.47 million barrels per day (mbpd) in Q3-2024, 1.38% higher than the 1.45mbpd in Q2-2023 and 4.26% y/y higher than the volume of 1.41mpd in Q2-2024.

- Q3-2024 GDP performance was mainly driven by the Services sector, which recorded a growth of 5.19% y/y and contributed 53.58% to the aggregate GDP.

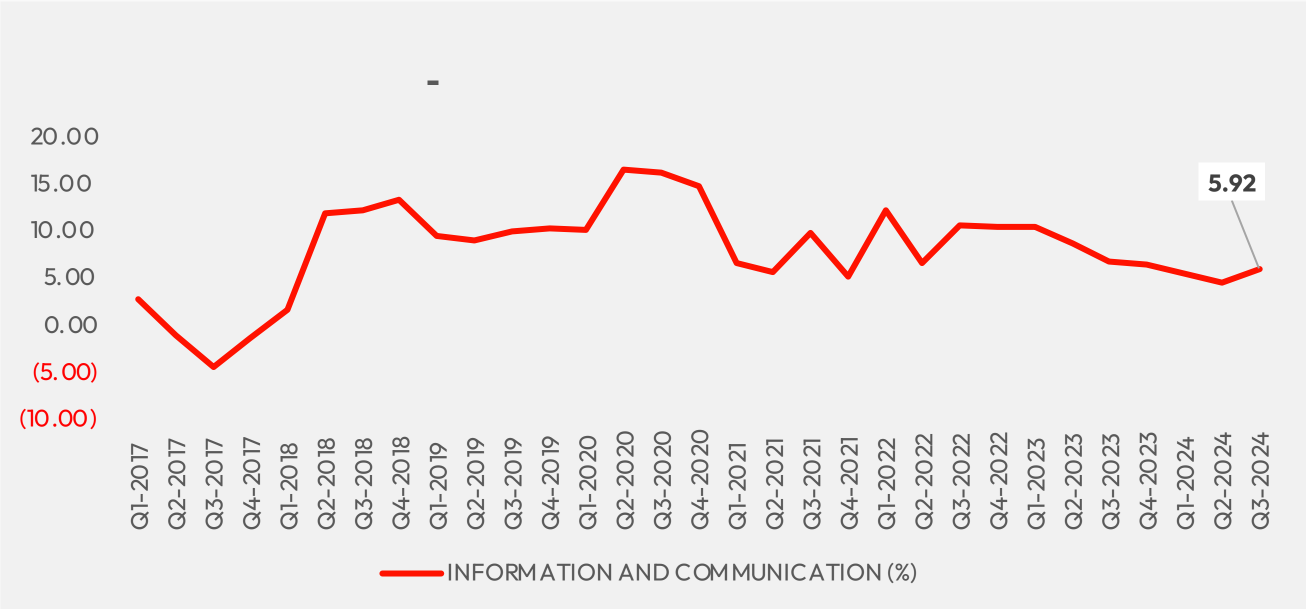
- The Agricultural sector, which accounted for 28.65% of Nigeria's GDP, slowed to 1.14% y/y from the growth of 1.30% y/y recorded in Q3-2023.

- Meanwhile, the Industry sector grew by 2.18% y/y in Q3-2024, slower than the 3.53%y/y in Q2-2024 and the contraction of 0.46% recorded in Q3-2023.

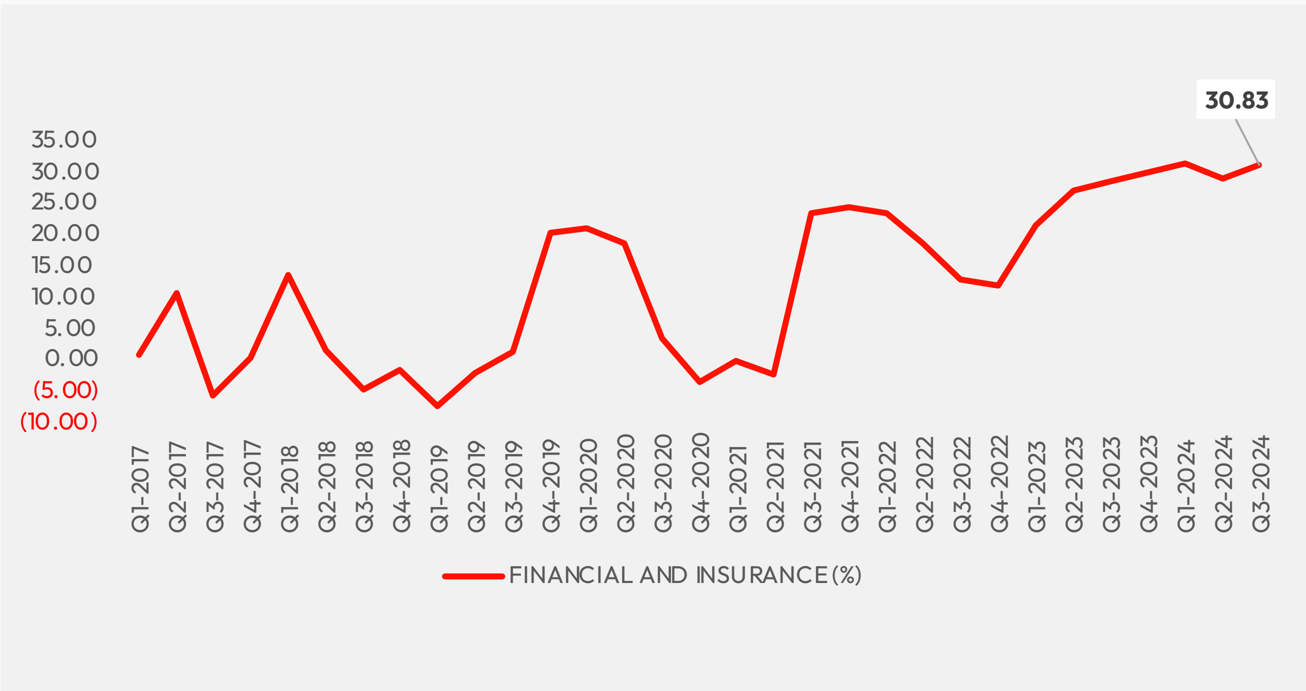
Source: NBS, United Capital Research

ECONOMIC GROWTH: SECTORIAL ANALYSIS

The Information and Communication sector expanded, reflecting the sustained broad-based improvement in telecoms fundamentals



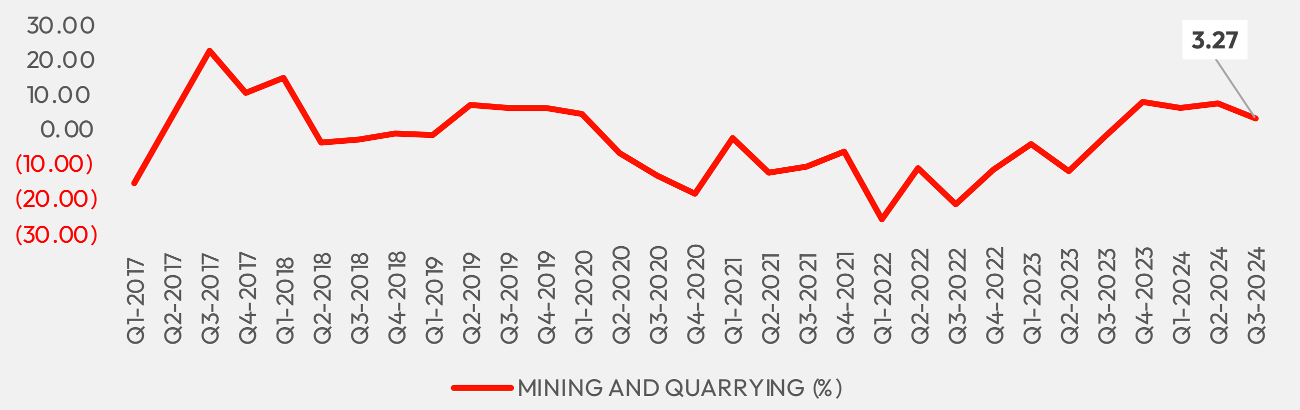
The Financial and Insurance sector improved in Q3-2024 following the advancement in digital banking and adoption



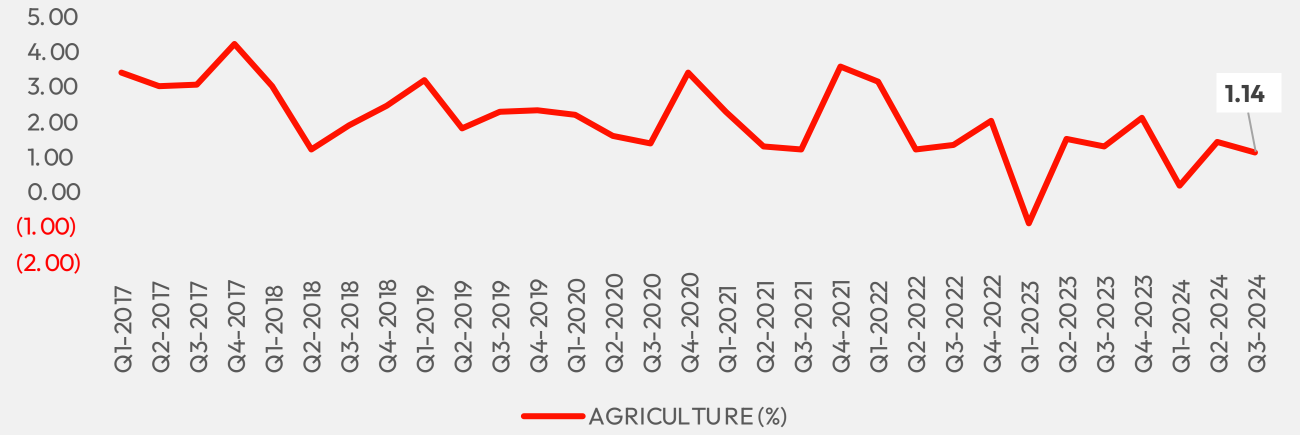
Source: NBS, United Capital Research

ECONOMIC GROWTH: SECTORIAL ANALYSIS

The Mining and Quarrying sector improved reflecting the Government's effert to boost oil output. Also, the opening of the Dangote refinery and other local refineries within the country contributed to the sector's performance



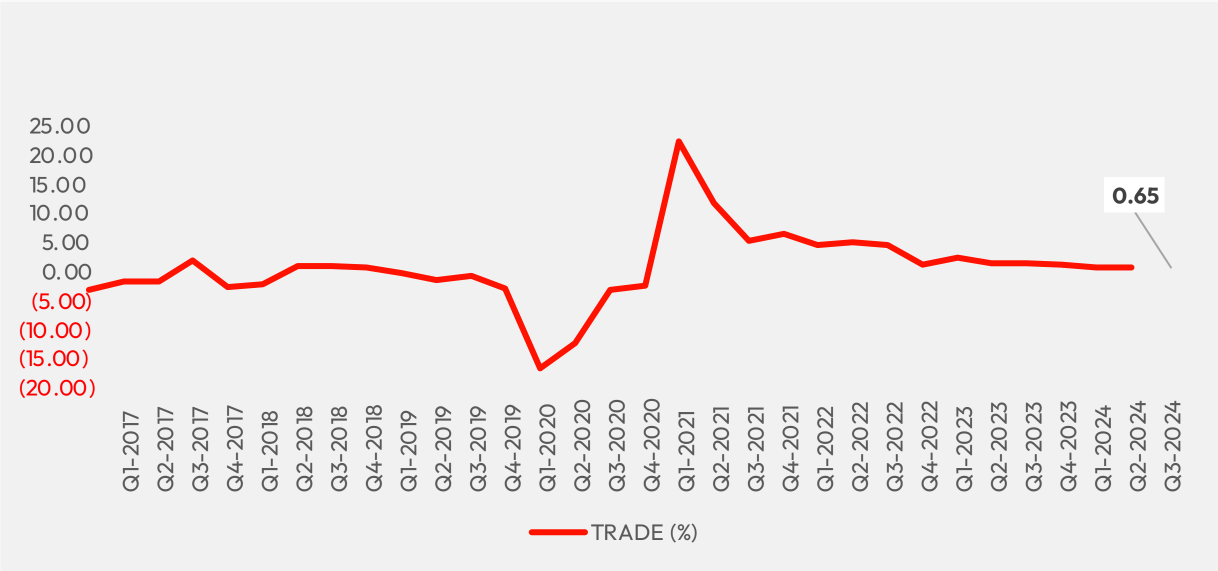
The Agricultural sector was impacted in particular by the flooding in food-producing states. Also, legacy inhibitions (security, poor storage facilities) remained headwinds



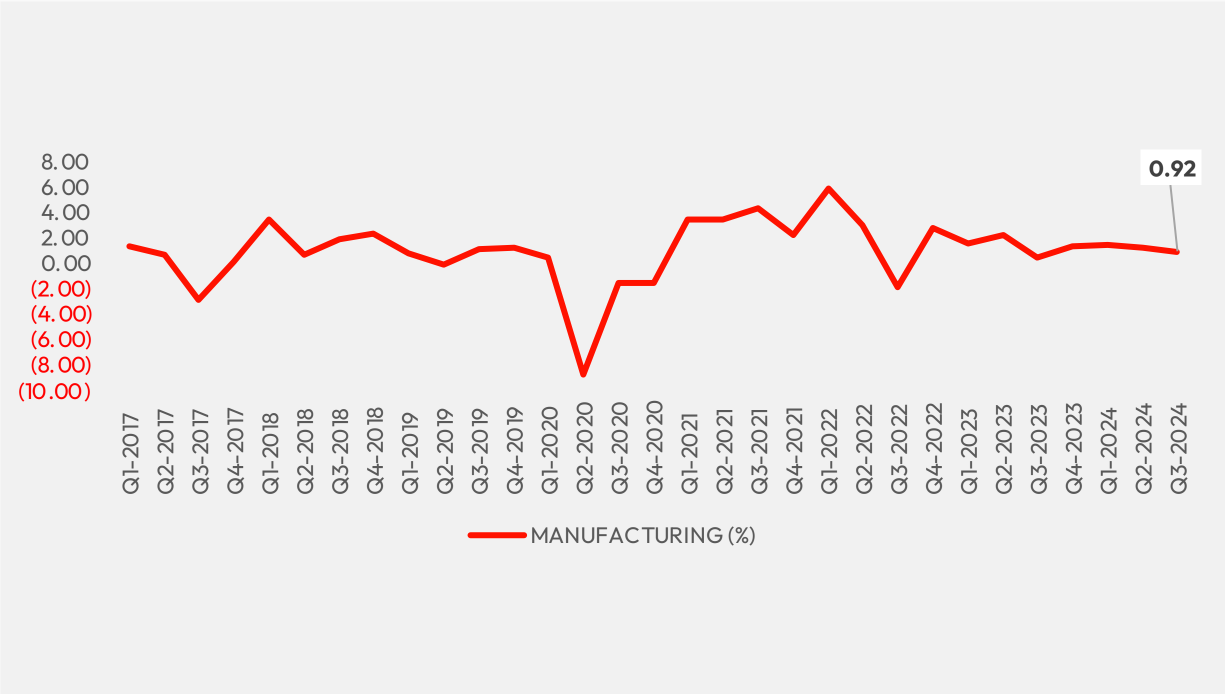
Source: NBS, United Capital Research

ECONOMIC GROWTH: SECTORIAL ANALYSIS

Trade's contribution to GDP printed at 14.78% in Q3-2024, higher than the 16.39% recorded in the second quarter of 2024



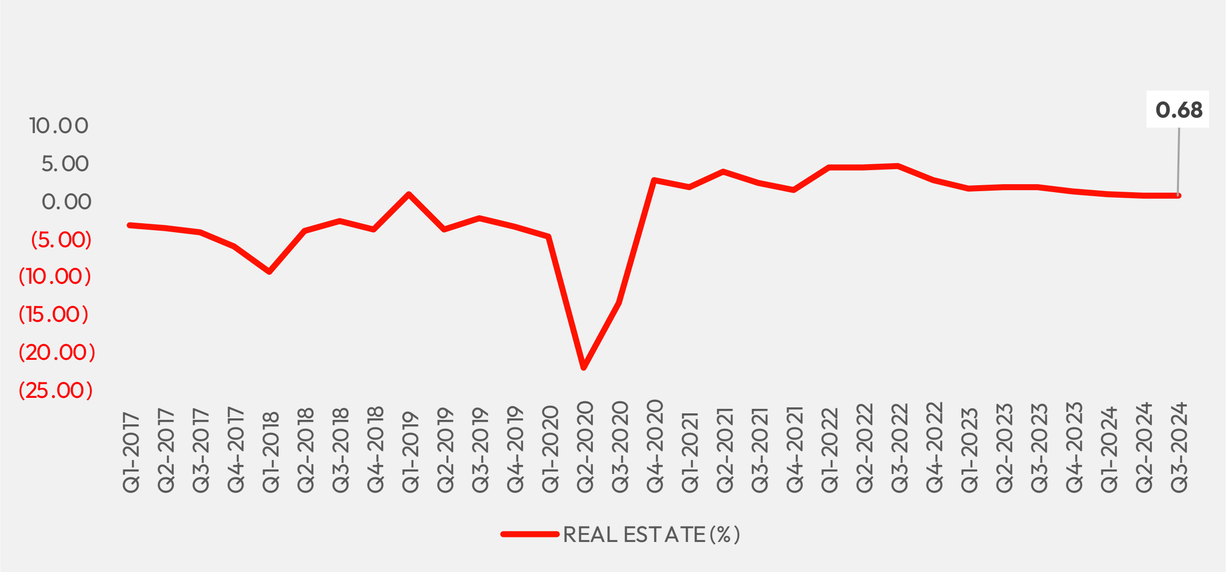
The slowdown in the Manufacturing sector can be attributed to the nation's volatile Foreign Exchange (FX) market, increasing the cost of imported raw materials for local manufacturers



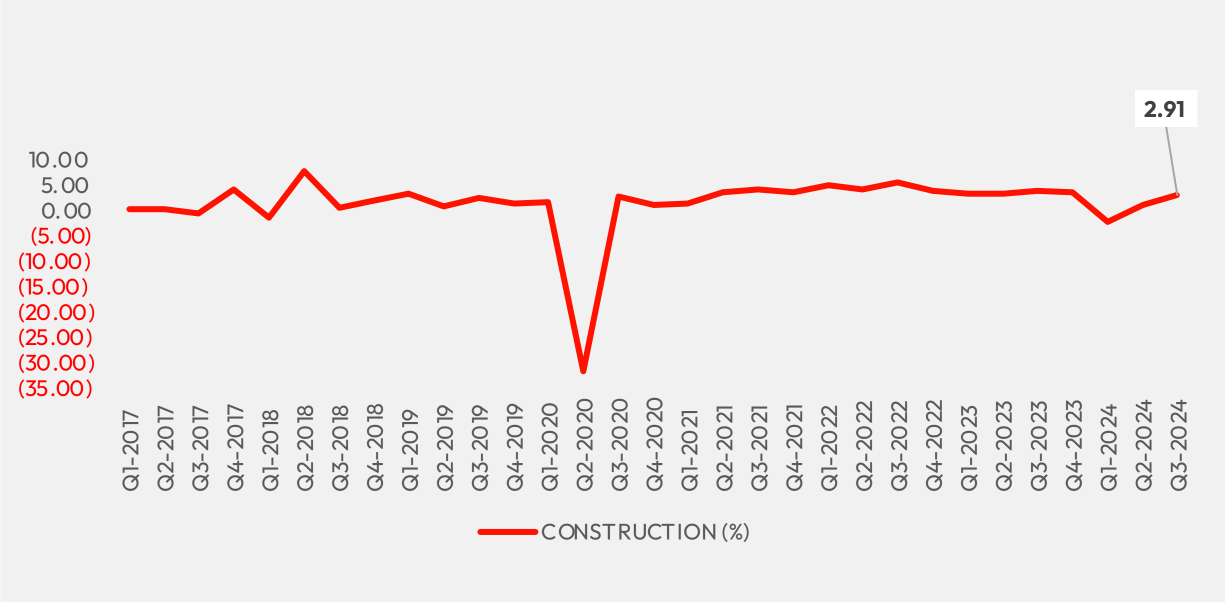
Source: NBS, United Capital Research

ECONOMIC GROWTH: SECTORIAL ANALYSIS

Growth in the Real Estate sector has remained steady, contributing 5.43% to Nigeria's real GDP in Q3-2024



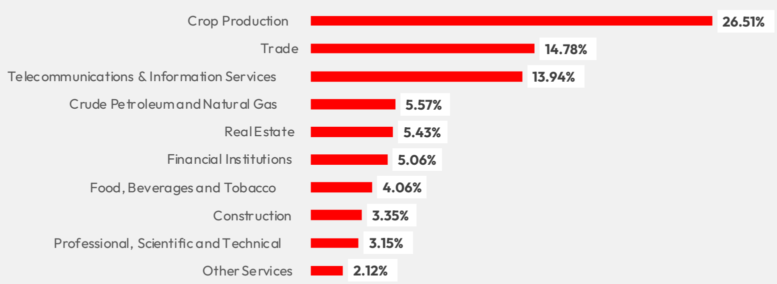
The Construction sector grew in Q3-2024 from the 1.05% recorded in the preceeding quarter, supported by the Federal Government's high CAPEX allocation despite the high cost of borrowing



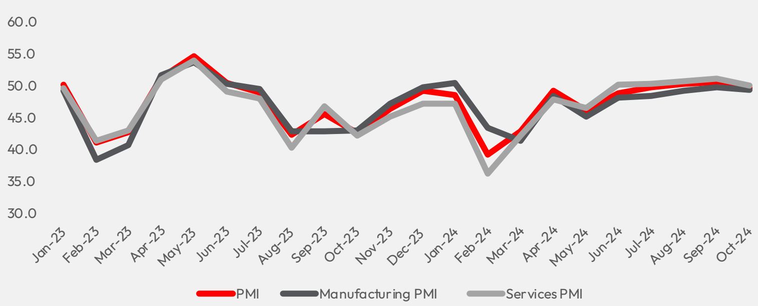
Source: NBS, United Capital Research

ECONOMIC GROWTH: PRIVATE SECTOR ACTIVITIES REMAIN WEAK

Total 10 contributing activities to real GDP in Q3-2024



Purchasing's Managers Index (PMI) Historical



- Nigeria's private sector activity dwindled in 2024, remaining in the contractionary region (below 50.00pts) for most of 2024. This can be attributed to the currency's weakness and higher raw material costs for producers. In turn, this translated into sharp price increases, negatively impacting customer demand and reducing both business activities & new orders.

- Notably, the Composite PMI for Oct-2024 stood at 49.60pts, indicating a contraction in economic activities. Both new orders and output declined markedly, primarily due to the intensification of already strong inflationary pressures driven by currency weakness and rising costs for fuel and transportation. In fact, overall input costs increased at one of the sharpest rates on record, prompting a corresponding rise in selling prices.

- However, the Services PMI printed at 50.00pts in Oct-2024. Among the 14 subsectors surveyed, 6 recorded expansion, Health care, and social assistance were stationary, while the remaining seven 7 indicated contractions. The subsector with the highest expansion was Educational services, whereas Transport and warehousing recorded the highest contraction.

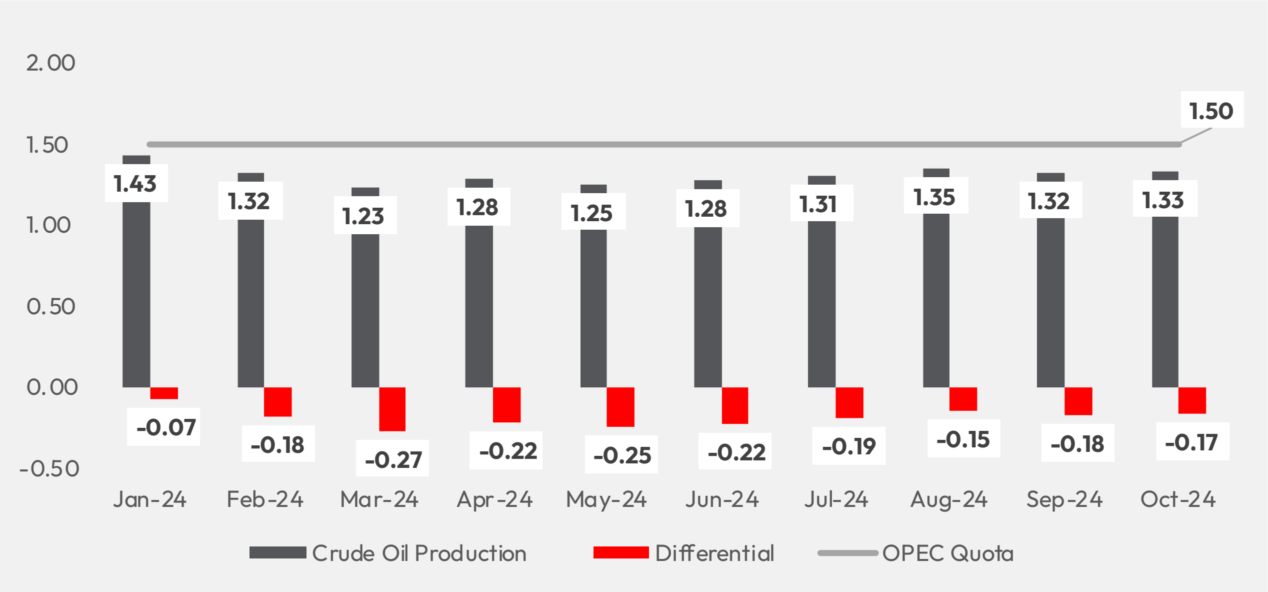
- The Manufacturing PMI stood at 49.30pts in Oct-2024. Although the sector remains in a state of contraction, there has been a noticeable rebound in industrial activities in recent months. Analysis of the sector shows that the Food, Beverage & Tobacco Products, whereas Cement recorded the highest expansion.

Source: CBN, United Capital Research

CRUDE OIL PRODUCTION: BELOW CAPACITY AND ESTIMATED QUOTAS

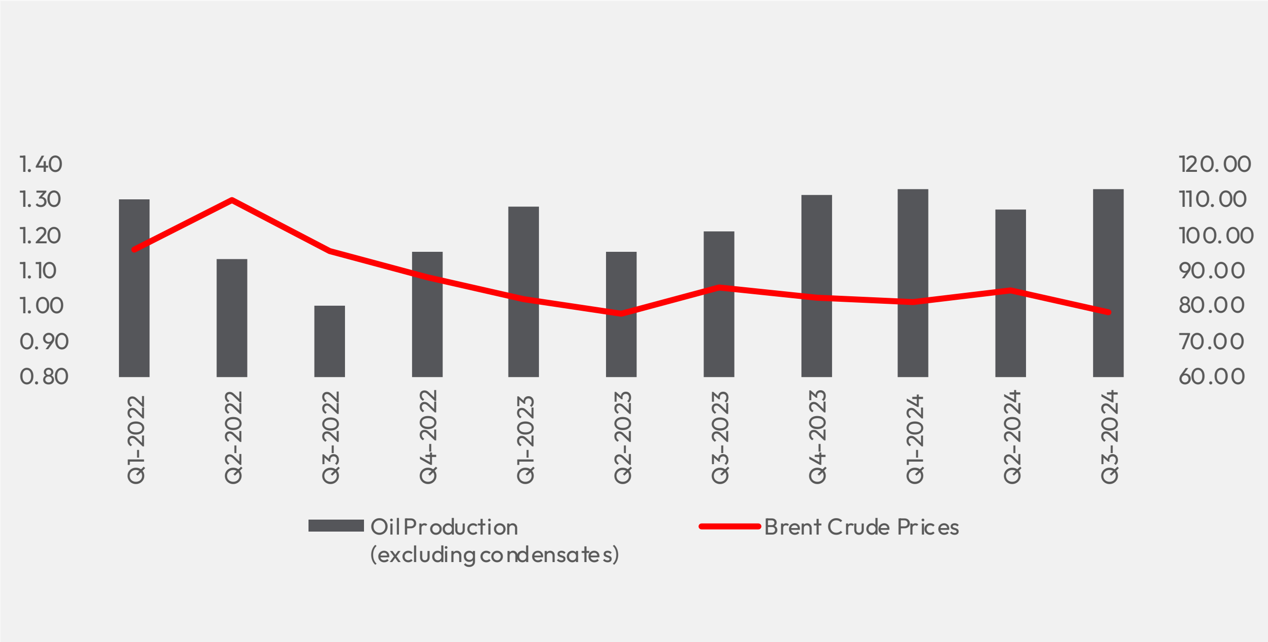
Nigeria's oil production in 2024 has been performing below OPEC+ quota

Crude Oil Production vs OPEC Quota



Crude oil revenue generation remains low due to low ouput levels despite elevated oil prices

Crude Oil Production vs Brent Crude Oil Prices

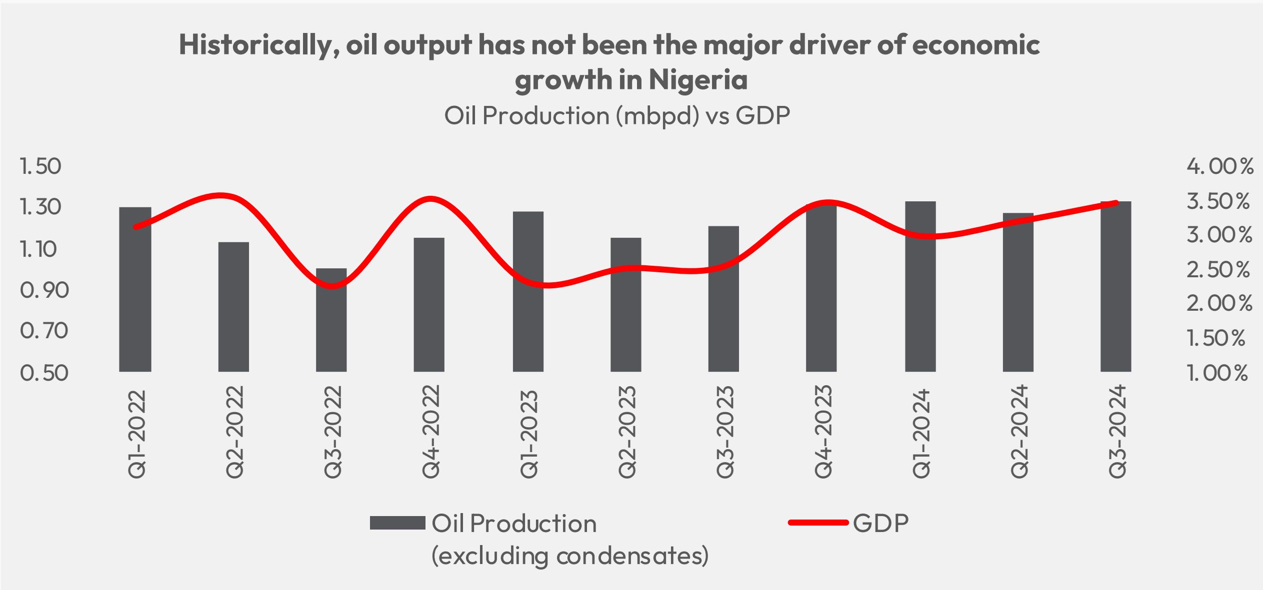


Source: NUPRC, NBS, United Capital Research

CRUDE OIL PRODUCTION: BELOW CAPACITY AND ESTIMATED QUOTAS

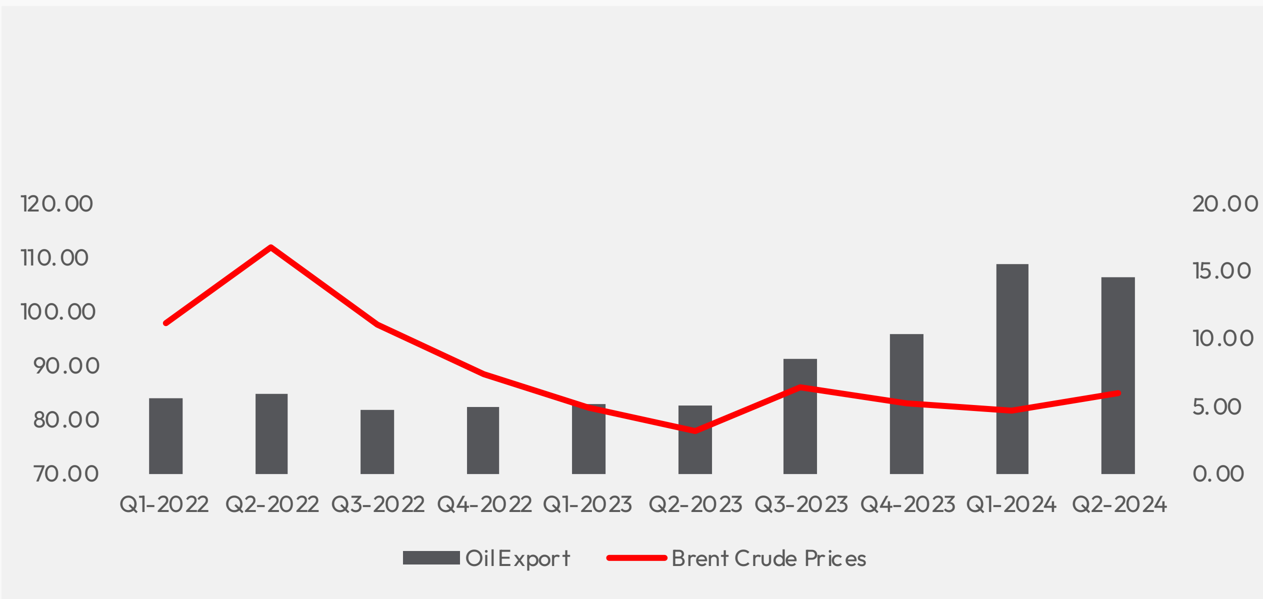
Historically, oil output has not been the major driver of economic growth in Nigeria

Oil Production (mbpd) vs GDP



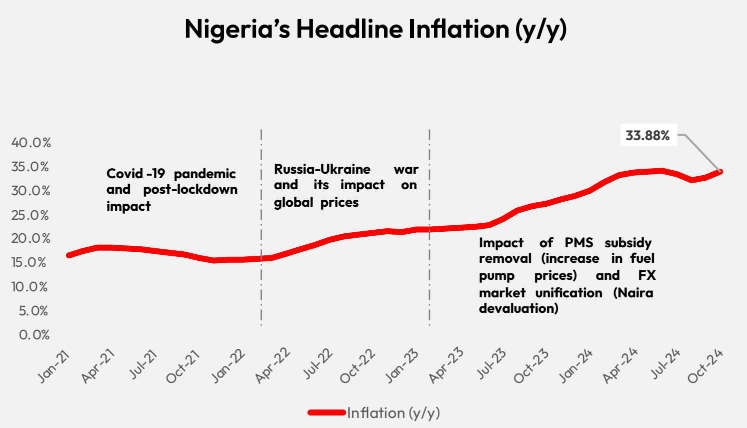
Crude oil export does not respond to the direction of crude oil prices. However, Naira depreciation has helped drive crude oil export higher in recent quarters

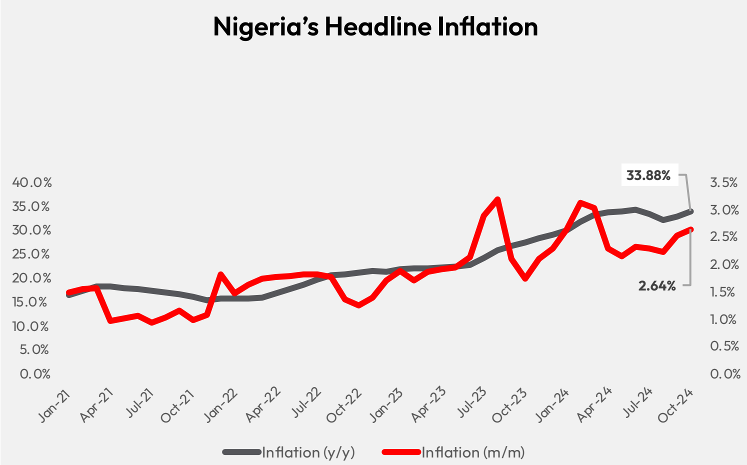
Oil Export vs Brent Crude Oil Prices



Source: NUPRC, NBS, United Capital Research

INFLATION: INFLATIONARY PRESSURES REMAINED UNABATED IN 2024





- Since 2016, Nigeria has been grappling with persistent double-digit headline inflation, with no signs of significant improvements. Nigeria's inflation is primarily caused by cost-push factors rather than demand-pull effects.

- Consequently, headline inflation rose to 34.19% y/y in Jun-2024, the highest since Mar-1996 amid the lingering effects of fuel subsidy removal and a weakening local currency. This represents a 527bps increase compared to the 28.92% y/y recorded in Dec-2023.

- Nevertheless, we saw a slowdown in inflation print for the months of July and August 2024 as the high base effect from 2023 kicked in. Also, this was aided by higher corn yields and a six-month duty-free window for corn and wheat imports.

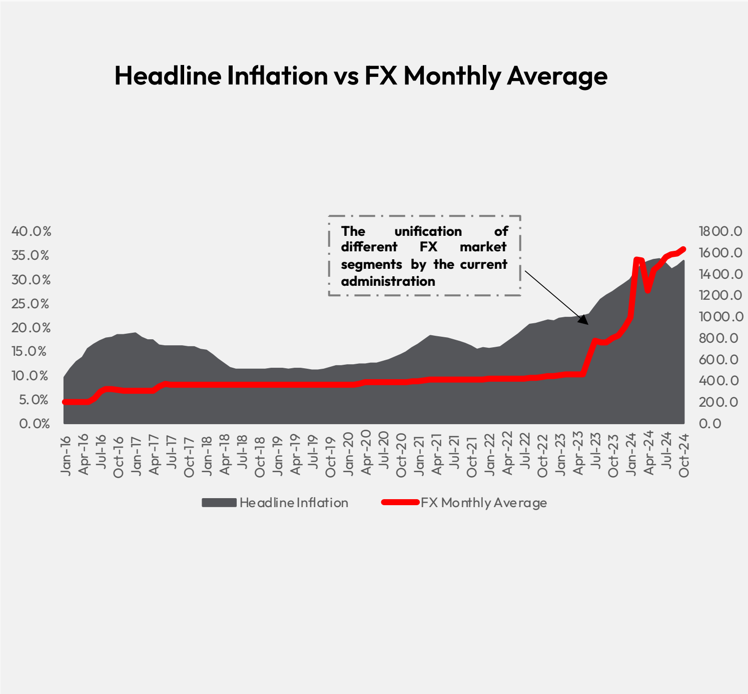
- However, this was short-lived as inflationary pressure ticked higher in Sept and Oct-2024, printing at 32.70% y/y and 33.80% y/y, respectively. Contributing factors include further depreciation of the Naira and the increase in transportation prices (following the double hikes in fuel prices in Sept-2024).

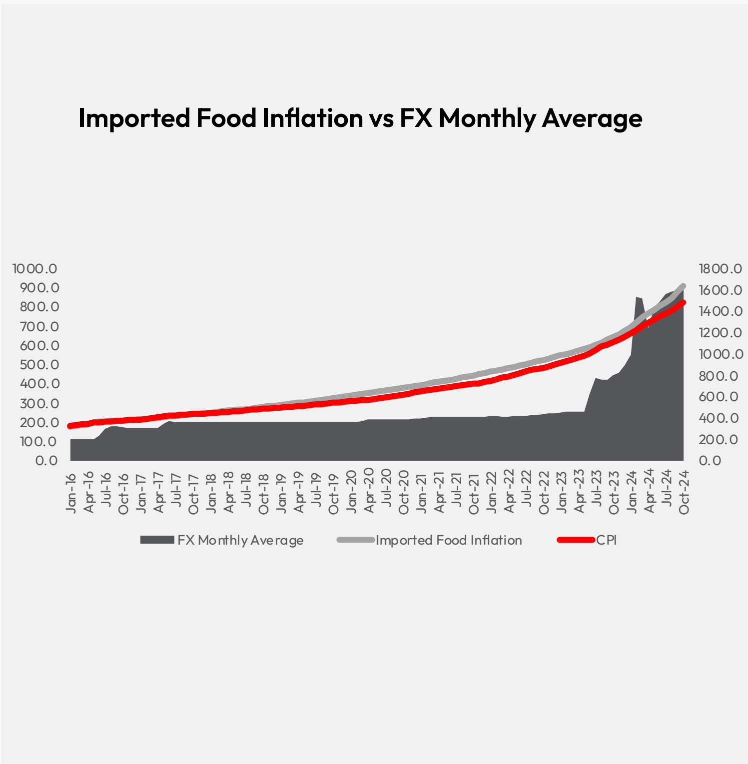
- Additionally, food inflation, which accounts for the bulk of Nigeria's inflation basket, rose amid the impact of the severe floods in food-producing areas.

- The IMF stated that inflation will moderate at 32.50% in 2024 compared to 24.70% in 2023 as the economy absorbs the lingering effects of fiscal and structural reforms.

Source: NBS, FMDQ, United Capital Research

INFLATION: FX VOLATILITY DROVE IMPORTED INFLATION HIGHER





- Following the unification of the different FX markets by the CBN in Jun-2023, Naira was devalued in the official market from the N450.00/$ - N470.00/$ levels to N750.00/$ - N750.00/$. Nevertheless, the underlying issues in the FX market persisted as Dollar supply remains underwhelming compared to Dollar demand within the nation. As a result, the Naira depreciated further to the N1500.00/$ - N1700.00/$ region in the official market.

- Due to heavy reliance on imports, pressures arising from the Naira depreciation and high global costs played a key role in driving inflation higher. Notably, imported food inflation rose to 40.96% y/y in Sept-2024, up 1606bps from the 24.90% y/y in Dec-2024. This reflects the FX pass-through effect on food inflation.

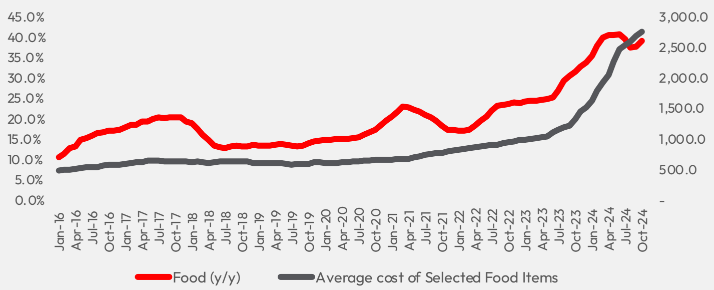
- The Naira has depreciated by 45.04% at the parallel market to settle at N1,755.00/$ as of Nov-2024 compared to N1210.00/$ as of Jan-2024. Meanwhile, at the Nigerian Foreign Exchange Market (NAFEM), the Naira depreciated by 82.94% to print at N1,659.44/$ versus the N907.11/$ as of Jan-2024.

- The depreciation was mostly driven by the sustained demand for the greenback - for international trade activities. Legacy inhibitions like the lingering security concerns in food-producing states, supply chain disruptions, inadequate storage infrastructures, high energy costs, and elevated transportation costs limit food supply and thus encourage food imports.

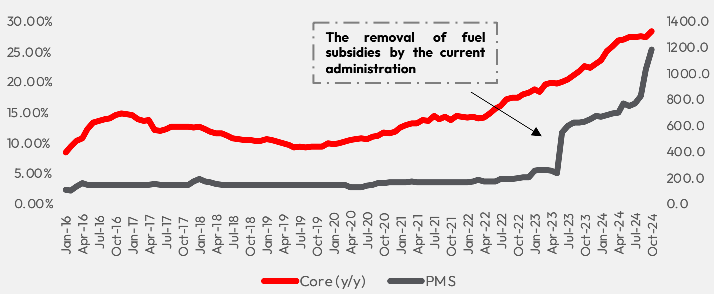
Source: NBS, FMDQ, United Capital Research

INFLATION: FOOD COMPONENT REMAINS THE MAIN DRIVER

Nigeria's Food Inflation vs Average Cost of Selected Food Items



Nigeria's Core Inflation vs Average PMS Prices



- Food inflation remains the major driver of headline inflation in the economy as Nigeria suffers from acute food shortage. Food supply has been underwhelming compared to demand owing to legacy inhibitions.

- Notably, food prices surged to 39.16% y/y in Oct-2024, a 523bps climb when compared with the 33.93% y/y in Dec-2023. This was particularly fueled by passthrough effects from the exchange rate on food imports and cases of flooding in food-producing states (weighing on local food supply).

- Average cost of selected food items have risen by 80.94% YTD. These food items include eggs, beans, beef, bread, fish, chicken, milk, garri, oils, potatoes, onion, plantain, rice, tomato, and yam, amongst others.
- Core inflation component remains under pressure, printing at 28.37% y/y, 531bps higher than the 23.06% y/y recorded in Dec-2023. Elevated petrol pump prices, petrol scarcity, and the unprecedented electricity tariff hike for band A electricity users plagued the core inflation component in 2024.

- Petrol pump prices surged by 76.3% YTD from an average of N671.86/litre as of Dec-2023 to N1184.83/litre as of Oct-2024. Similarly, the electricity tariff for band A users was raised by 230.88% to N225.00/kWh in Apr-2024, following rising power generation costs. The decision received backlash, and the government reduced the tariff by 8.09% to N206.80/kWh. However, this was short-lived as the tariff was increased again to N209.50/kWh in Jul-2024.

Source: NBS, United Capital Research

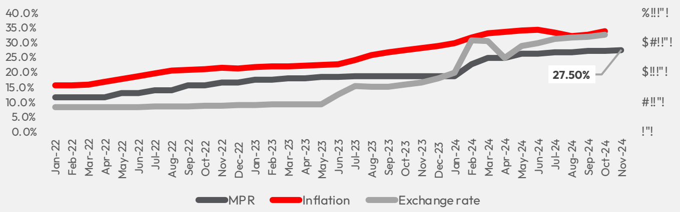
MONETARY SECTOR

- Interest Rate
- Private Sector Credit

INTEREST RATE: MPR SURGED TO NEW-HIGHS

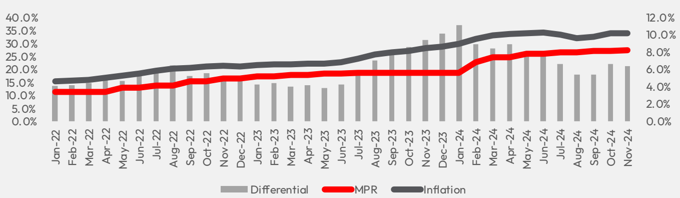
Headline inflation have remained elevated (due to FX pressure) despite the hawkish monetary policy stance of the Central Bank

Monetary Policy Rate (MPR) vs Headline Inflation vs Exchange Rate



The disparity between headline inflation rate and interest rate narrowed in the first seven months of 2024. However, it has reversed momentum due to the rise in inflationary pressures arising from recent hikes in fuel prices

Benchmark Rate (MPR)



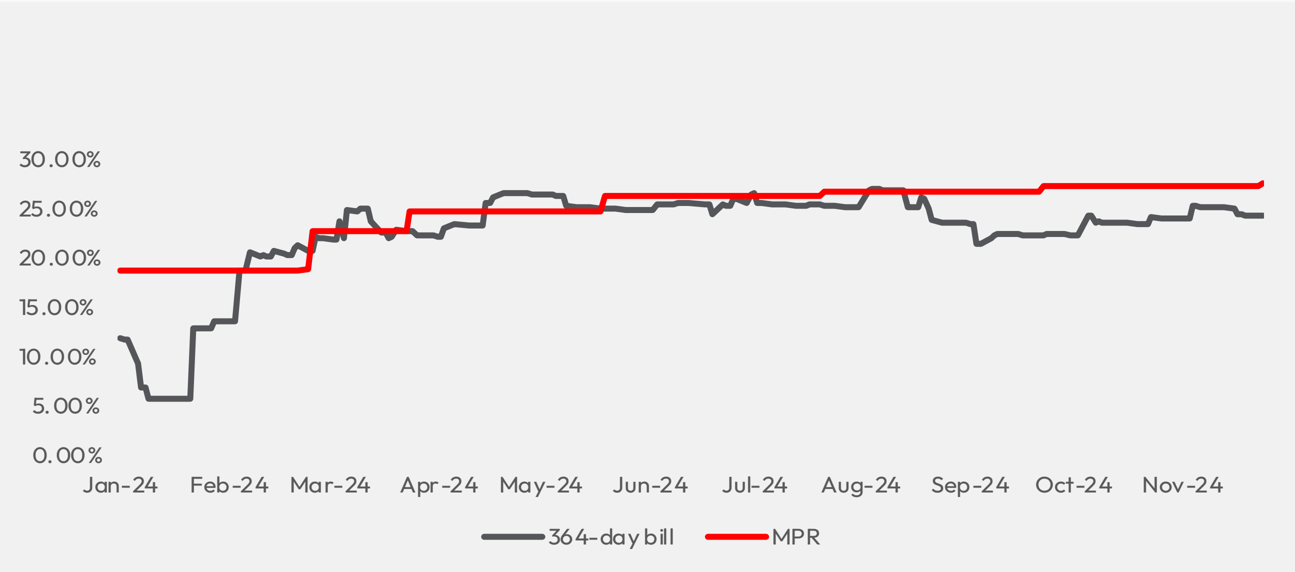
- The Monetary Policy Committee (MPC), conducted six out of the six meetings scheduled for 2024. At five meetings, the MPC maintained a hawkish stance as combatting rising inflationary pressures was the key consideration for the CBN.
- So far in 2024, the MPC has increased the Monetary Policy Rate (MPR) by 400bps, 200bps, 150bps, 50bps, 50bps, and 25bps in Feb-2024, Mar-2024, May-2024, Jul-2024, Sept-2024, and Nov-2024, respectively. This brings the cumulative number of hikes in 2024 to +875bps, with the MPR currently at 27.50% as of Nov-2024 versus 18.75% as of Dec-2023.
- The CBN reiterated its commitment to rein down inflation and bring it under control. Nigeria's headline inflation is currently at two-decade-high levels.
- The MPC also voted to tighten the Cash Reserve Ratio (CRR) of the banks by 17.50ppts from 32.50% at the start of the year to 50.00%.
- Meanwhile, the Asymmetric Corridor was adjusted from +100/-300bps at the start of the year to +500/-100bps around the MPR.
- Lastly, the Liquidity Ratio was retained at 30.0%.

Source: NBS, CBN, United Capital Research

INTEREST RATE: IMPACT ON THE FINANCIAL SYSTEM AND MARKETS

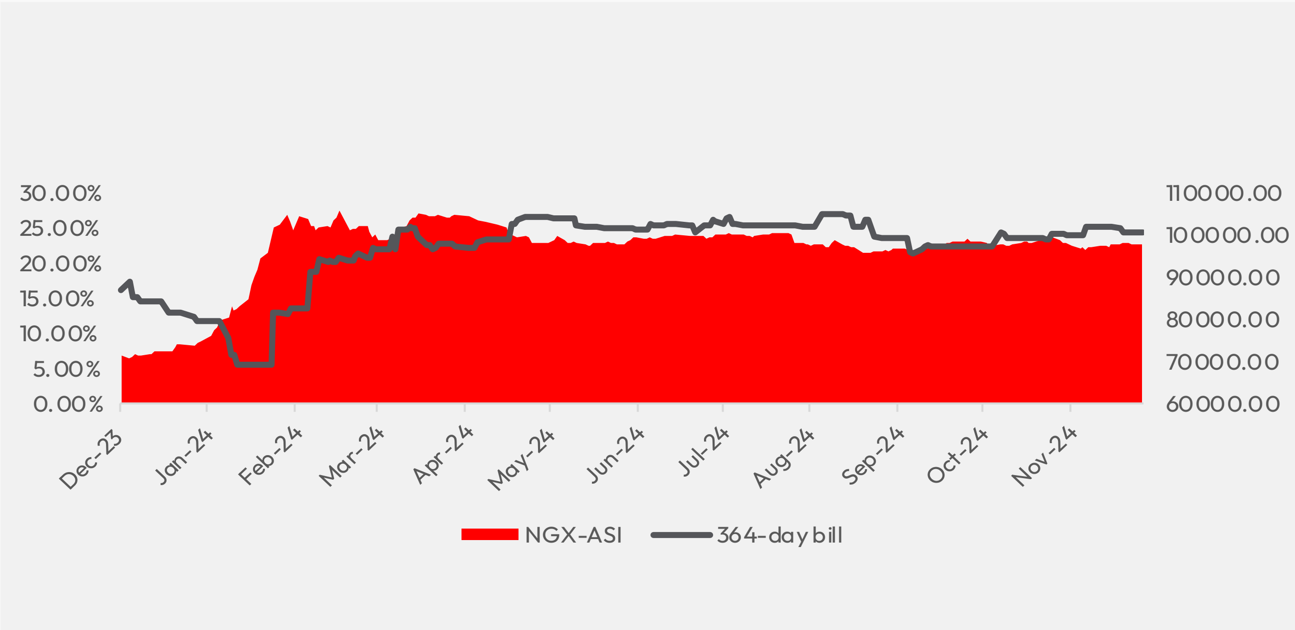
Yields on fixed income instruments have surged higher since the start of the year when the MPC began its hawkish stance

MPR vs 365-day bill



The equities market has remained resilient despite the hawkish monetary policy environment. This has been majorly supported by the rally witnessed in January

MPR vs Nigerian Equities Market

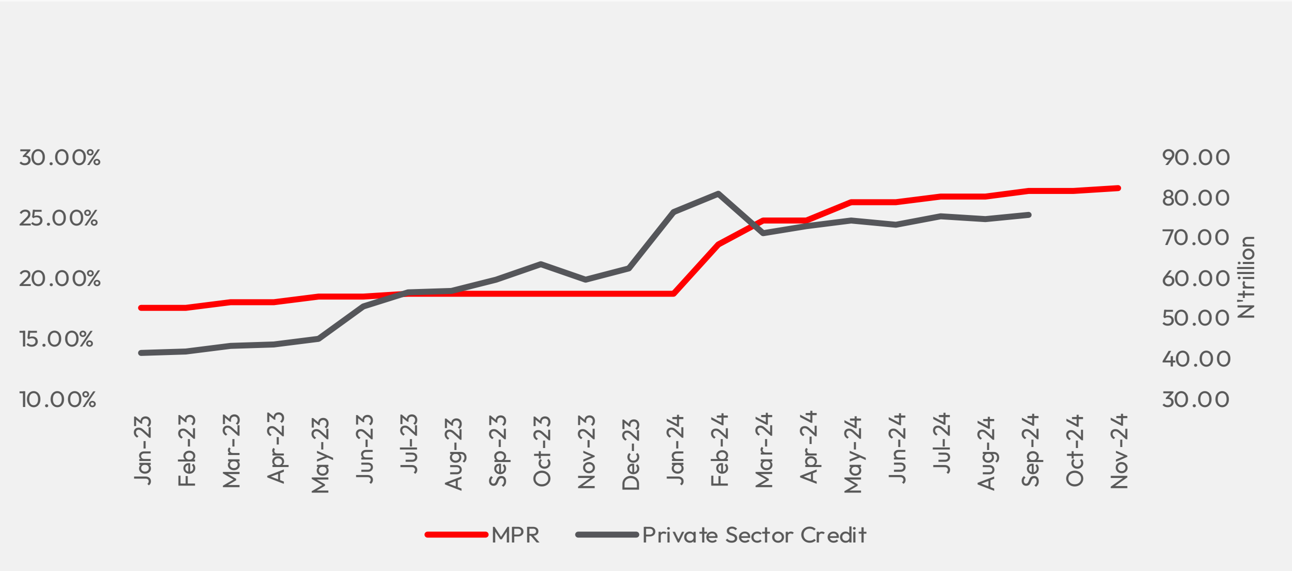


Source: CBN, United Capital Research

INTEREST RATE: IMPACT ON THE FINANCIAL SYSTEM AND MARKETS

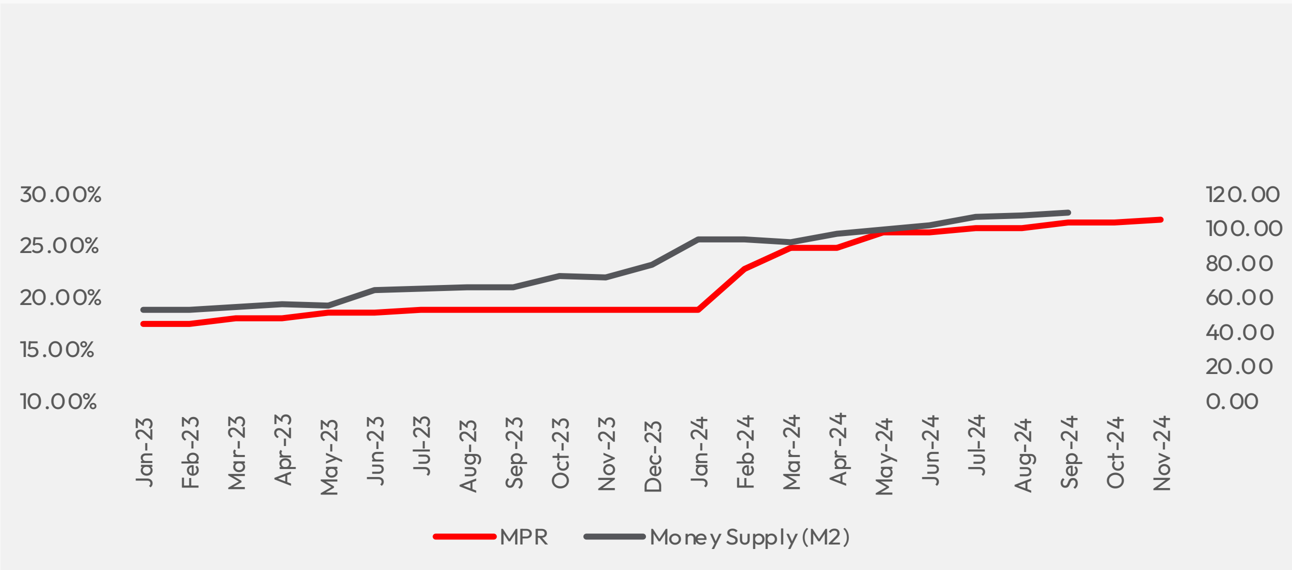
The eleevated interest rate environment discouraged private sector credit as borrowing costs were high

MPR vs Credit to Private Sector



Money supply within the nation has continued to increas despite the series of rate hikes by the Central Bank. This shows the ineffectiveness of the MPR hikes in easing inflationary pressure

MPR vs Money Supply (M2)



Source: CBN, United Capital Research

PRIVATE SECTOR CREDIT

SECTORIAL CREDIT ALLOCATION(N'TN)	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024
AGRICULTURE	1.89	1.84	1.82	2.26	2,58	2.44
INDUSTRY	12.33	16.31	16.81	18.78	22.49	24.57
OF WHICH MANUFACTURING	5.66	6.98	7.34	7.73	8.70	9.26
SERVICES	16.12	19.32	20.46	23.50	28.15	28.70
OF WHICH FINANCE, INSURANCE AND CAPITAL MARKET	2.64	3.48	3.63	4.33	3.41	6.16
OF WHICH TRADE/ GENERAL COMMERCE	2.33	2.88	3.21	3.58	3.80	3.57
TOTAL	30.35	37.48	39.11	44.54	53.22	55.71

Overall Credit Allocation: There was a steady increase in total credit allocation across Q1-2023 to Q2-2024.Total credit allocation increased from N0.35trn in Q1-2023 to N55.71trn in Q2-2024. This represents a substantial growth of approximately 84.00%.

Industrial Sector: The industrial sector consistently received the highest credit allocation throughout the period. It saw significant growth from N12.33trn in Q1-2023 to N24.57trnn in Q2-2024.

Services Sector: The services sector also witnessed a steady increase in credit allocation, moving from N16.12trn in Q1-2023 to N28.70trn in Q2-2024.Notably, Finance, Insurance, and Capital Market experienced a significant jump in credit allocation in Q2-2024, suggesting increased lending activity.

Agriculture: While showing an upward trend, Agriculture received the least credit allocation compared to other sectors.

Source: CBN, United Capital Research

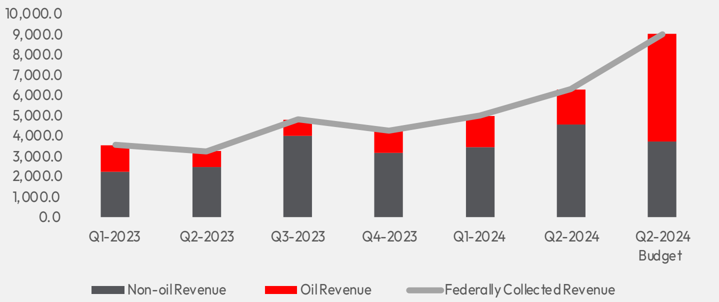
FISCAL SECTOR

- Budget Performance
- 2025 Budget
- Public Debt
- Debt Servicing

BUDGET PERFORMANCE: BUDGET DEFICIT INCREASES

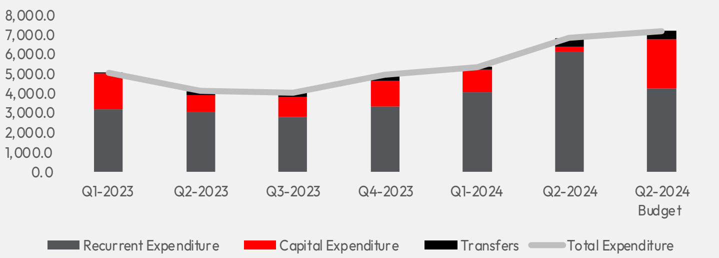
Nigeria's revenue generation capacity remains underwhelming

FGN Revenue Performance and Benchmark (N'bn)



Recurrent expenditure increased significantly due to debt servicing costs. Meanwhile , funds were not deployed for capital projects compared to the budget estimate

FGN Expenditure and Benchmark (N'bn)



- Nigeria's revenue generation remains under-par and below budget estimates. In Q2-2024, the country generated a total of N6.29tn in revenue. This represents a budget underperformance of 43.20% compared to the pro-rated N9.00tn. This was due to the low oil revenue generated during the period, as crude oil production remained weak. For context, oil revenue printed at N1.73tn versus the budget estimate of N5.30tn. Meanwhile, non-oil revenue remained stable supported by strong tax revenue collections.

- On expenditure, the Federal Government has spent a total of N12.19tn between Jan-June 2024. In Q1-2024, total expenditure settled at N5.35tn. It increased further by 27.79% q/q to N6.84tn in Q2-2024. The bulk of the expenditure was spent on debt servicing costs (N4.45tn) as it accounted for 65.03% of total expenditure for Q2-2024. This represents a 215.07% increase compared to the budgeted estimate of N2.07tn for Q2-2024.

BUDGET PERFORMANCE: BUDGET DEFICIT INCREASES

Fiscal Balance (N'bn)

	Retained Revenue	Expenditure	Overall Fiscal Deficit
Q1 -2023	1,316.00	5,056.11	-3,740.11
Q2-2023	1,480.38	4,114.17	-2,633.79
Q3-2023	1,693.02	4,040.18	-2,347.16
Q4-2023	1,682.24	4,951.46	-3,269.22
Q1 -2024	1,462.34	5,351.76	-3,889.42
Q2-2024	2,305.54	6,838.96	-4,533.42
Q2-2024 Budget	4,899.62	7,194.35	-2,294.73

- As a result, the nation's overall fiscal deficit expanded, up by 16.56% q/q from N3.89tn to N4.53tn in Q2-2024. It also marks a 97.56% climb compared to the budgeted estimate of N2.29tn.

2025 BUDGET: UNREALISTIC ASSUMPTIONS

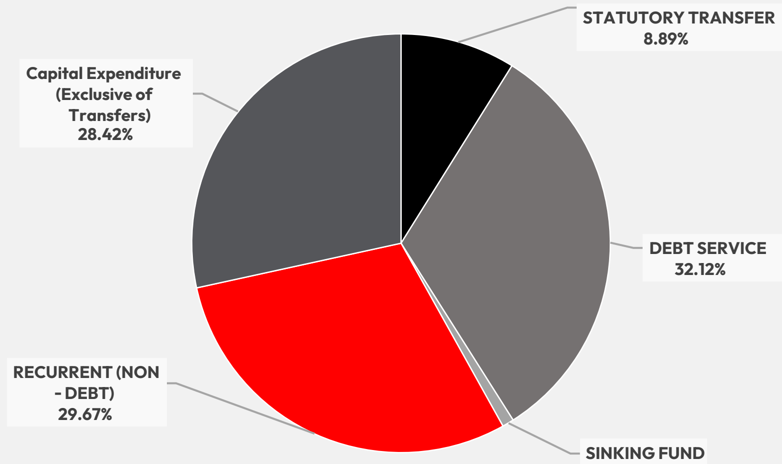
Proposed Budget

	2025 N' Trillion	2024 N' Trillion (NASS Approval + Amendment)	Percentage Change
Aggregate Revenue	**34.82**	**25.88**	**34.58%**
Oil	19.60	8.18	139.74%
Non - oil	6.10	3.57	70.99%
Independent & Other Sources	9.15	14.13	-35.26%
Aggregate Expenditure	**47.90**	**35.06**	**36.64%**
Recurrent Non -Debt	14.21	11.27	26.13%
Debt Service (excluding sinking fund)	15.38	8.05	91.16%
Capital Expenditure	13.61	13.77	-1.15%
Statutory Transfers (including capex)	4.26	1.74	144.49%
Sinking Fund	0.43	0.22	92.83%
Budget Deficit	**13.08**	**9.18**	**42.47%**

Source: CBN, United Capital Research

2025 BUDGET: UNREALISTIC ASSUMPTIONS

2025 Proposed Aggregate Expenditure



KEY ASSUMPTIONS	2023 Budget	2023 Actual	2024 Budget	2024 Actual*
Oil Price Benchmark ($/bbl.)	75.00	81.22	77.96	79.94
Oil Production (mbpd)	1.69	1.39	1.78	1.52
Exchange Rate (N/$)	435.60	672.85	750.00	1476.90
Inflation (%)	17.20	24.54	21.40	32.88
GDP Growth Rate (%)	3.75	2.74	3.76	3.22

KEY ASSUMPTIONS	2024 Budget	2025	2026	2027
Oil Price Benchmark ($/bbl.)	77.96	75.00	76.20	75.30
Oil Production (mbpd)	1.78	2.06	2.10	2.35
Exchange Rate (N/$)	800.00	1400.00	1400.00	1400.00
Inflation (%)	21.40	15.75	14.21	10.04
GDP Growth Rate (%)	3.80	4.60	4.40	5.50

Source: NBS, FMDQ, NUPRC, Bloomberg, Budget Office of the Federation, United Capital Research

BUDGET ANALYSIS

	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022A	2023A	2024F	2025F
Oil Revenue	1,218.2	697.8	2,103.5	2,320.3	1,923.7	1,667.5	997.8	776.4	2,377.3	6,132.2	13,721.2
Non -Oil Revenue	769.3	818.5	946.9	1,121.1	1,328.4	1,276.1	1,792.6	2,388.9	3,312.4	4,640.7	7,016.1
Independent & Other	1,252.9	1,431.2	1,337.3	522.3	2,418.1	993.7	1,786.2	3,340.0	4,548.9	10,806.6	5,450.5
Total Revenue	**3,240.3**	**2,947.5**	**4,387.7**	**3,963.7**	**5,670.1**	**3,937.4**	**4,576.6**	**6,505.3**	**10,238.7**	**21,579.5**	**26,187.8**
Budgeted Revenue	3,603.0	3,855.7	5,084.4	7,165.9	6,998.5	5,365.4	6,772.6	8,240.8	8,626.0	23,015.5	31,953.7
Revenue Performance (%)	**89.9%**	**76.4%**	**86.3%**	**55.3%**	**81.0%**	**73.4%**	**67.6%**	**78.9%**	**118.7%**	**93.8%**	**82.0%**
Statutory Transfers	338.6	344.0	384.5	456.5	462.6	428.0	496.5	810.1	1,034.7	1,638.2	3,961.0
Capital Expenditure	601.3	173.1	540.0	1,743.0	1,212.6	1,744.5	2,893.3	2,176.8	4,818.8	5,950.2	5,086.3
Recurrent Expenditure	2,550.1	3,157.3	3,600.5	3,103.6	4,224.9	4,645.2	4,458.0	5,050.2	5,459.1	8,167.1	9,842.5
Debt Service Cost	1,277.5	1,467.5	2,054.6	2,152.7	2,564.9	3,265.5	4,221.7	5,656.6	8,556.9	12,406.4	22,139.7
Total Expenditure	**4,767.4**	**5,141.9**	**6,579.6**	**7,455.8**	**8,464.9**	**10,083.2**	**12,069.4**	**13,693.7**	**19,869.4**	**28,162.0**	**41,029.5**
Budgeted Expenditure	4,358.0	6,060.0	7,441.2	9,120.3	8,917.0	9,973.7	12,512.2	15,267.6	20,633.0	32,123.1	41,624.1
Expenditure Performance (%)	**109.4%**	**84.9%**	**88.4%**	**81.7%**	**94.9%**	**101.1%**	**96.5%**	**89.7%**	**96.3%**	**87.7%**	**98.6%**
Budget Deficit	**(1,527.0)**	**(2,194.4)**	**(2,191.9)**	**(3,492.1)**	**(2,794.8)**	**(6,145.8)**	**(7,492.8)**	**(7,188.4)**	**(9,630.8)**	**(6,582.5)**	**(14,841.7)**
Nominal GDP	94,145.0	101,489.5	113,719.0	127,736.8	144,210.5	152,324.1	173,527.7	199,336.0	229,912.0	229,912.0	229,912.0
Debt Service to Revenue (%)	**39.4%**	**49.8%**	**46.8%**	**54.3%**	**45.2%**	**82.9%**	**92.2%**	**87.0%**	**83.6%**	**57.5%**	**84.5%**
Budget Deficit to GDP (%)	**1.6%**	**2.2%**	**1.9%**	**2.7%**	**1.9%**	**4.0%**	**4.3%**	**3.6%**	**4.2%**	**2.9%**	**6.5%**

Revenue Trends

Oil Revenue: Shows a volatile pattern, with significant fluctuations y/y There was a notable peak in 2017 followed by a sharp decline. The forecast for 2024F and 2025F are unrealistic given the revenue pattern over the years.

Non-Oil Revenue: Generally shows a positive trend, increasing steadily over the years. This suggests efforts to diversify revenue sources away from oil dependence.

Independent & Other Revenue: Exhibits growth, albeit with some fluctuations. This category likely includes revenues from various sources like dividends, fees, and other miscellaneous income.

Total Revenue: Reflects the combined impact of oil and non-oil revenue sources. While there were years with significant shortfalls compared to budgeted revenue, the forecast for 2024F and 2025F predicts a substantial increase in total revenue.

Expenditure Trends:
Statutory Transfers: Generally increased over the years, indicating a growing commitment to funding specific government entities, programs, or initiatives.

Capital Expenditure: Shows significant fluctuations, with some years seeing very low capital spending. This is concerning as capital expenditure is crucial for long-term economic growth and infrastructure development.

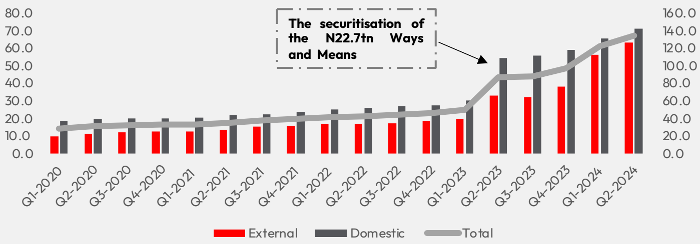
Recurrent Expenditure: Has consistently been the largest component of expenditure. This includes salaries, wages, and other day-to-day operating costs.

Source: Budget Office of the Federation, United Capital Research

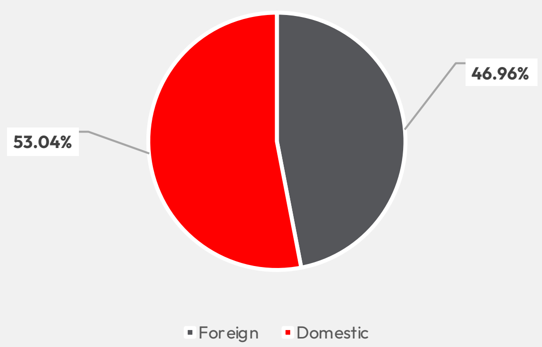
PUBLIC DEBT: WEAKENING FISCAL HEALTH

Nigeria's remains heavily dependent on debts to finance its expenditures

Nigeria's Total Public Debt Stock (N'tn)



Distribution of Total Public Debt Stock



- Nigeria's debt sustainability remains a major concern as the nation's fiscal health keeps deteriorating. The weak revenue generation capacity has made the government heavily reliant on borrowings to finance its expenditures.

- Nigeria total public debt stock has risen by 53.69% y/y from N87.38tn as at Q2-2023 to N134.30tn as at Q2-2024. Of this lump sum, domestic debt accounts for 53.04%, settling at N71.22tn as at Q2-2024. This represents a 31.58% y/y climb from the 54.13tn recorded as at Q2-2023.

- The surge in domestic debts is attributed to the securitisation of the loans owed by the Federal Government to the CBN under the Ways and Means provision. In May-2023, the National Assembly approved the securitisation of the N22.7tn loans owed at a 9.00% interest rate. This, in turn, added more pressure to the domestic component of Nigeria's debt stock.

- For foreign debts, Nigeria did not play in the International Capital Market (ICM) in the last two years. However, in Q4-2024, the government approached the ICM offering $500 million worth of Eurobonds (first tranche). Currently, foreign debts in Naira terms rose significantly by 89.70% y/y to settle at N63.07tn as at Q2-2024 compared to N33.25tn in Q2-2023.

- The surge in foreign debts is attributed to Naira's depreciation. The local currency depreciated by 90.83% y/y to N1470.19/$ as at Jun-2024 from N770.38/$ as at Jun-2023. To reiterate, foreign debts in Dollar terms decreased by 0.60% y/y to N42.90tn (previously, N43.16tn).

Source: DMO, United Capital Research

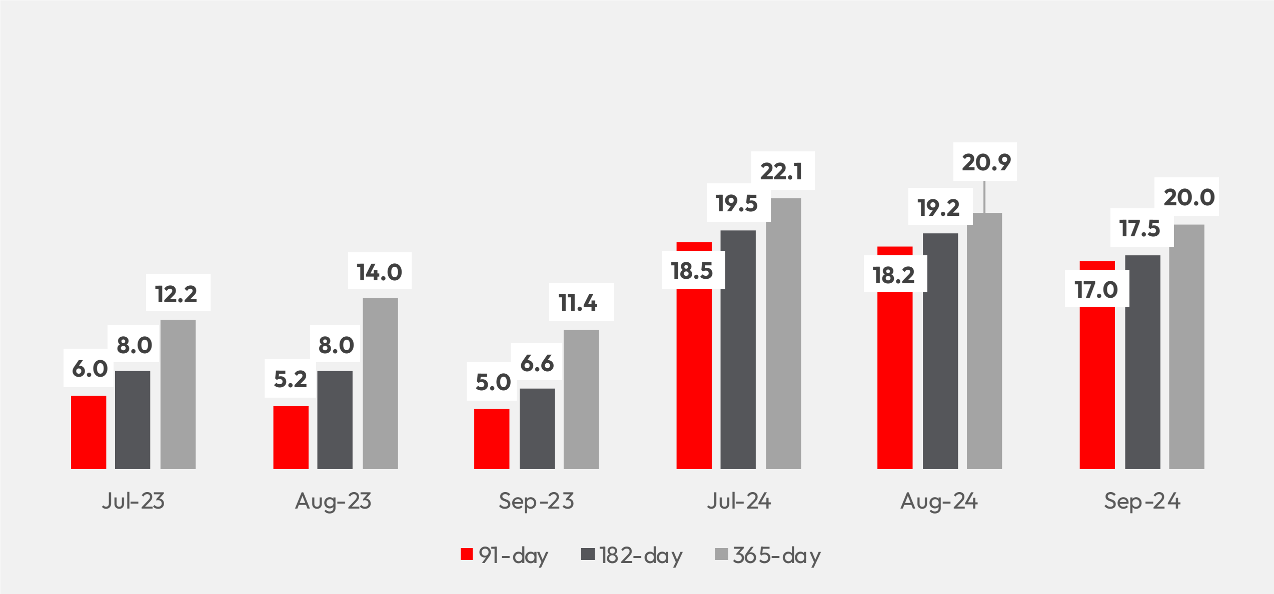
DEBT SERVICING COSTS: ELEVATED BORROWING COSTS

Domestic Debt Servicing by Instruments

N'bn	H1-2023	H1-2024	% change	% of H1 -2024 Total
NTBs	105.98	203.99	92.48%	7.15%
FGN BONDS	1195.32	2479.67	107.45%	86.92%
FGN GREEN BONDS	1.08	1.09	0.30%	0.04%
FGN SUKUK BONDS	51.44	79.20	53.96%	2.78%
FGN SAVINGS BONDS	1.28	2.26	77.11%	0.08%
PROMISSORY NOTES	84.92	86.56	1.94%	3.03%
TOTAL	**1440.01**	**2852.76**	**98.11%**	**100.00%**
INTEREST	1355.09	2766.20	104.13%	96.97%
PRINCIPAL	84.92	86.56	1.93%	3.03%
TOTAL	**1440.01**	**2852.76**	**98.11%**	**100.00%**

Interests in NTB have increased in 2024 compared to 2023 due to the CBN's drive to keep rates elevated to attract foreign investors

NTB Auction Stop Rate (%)

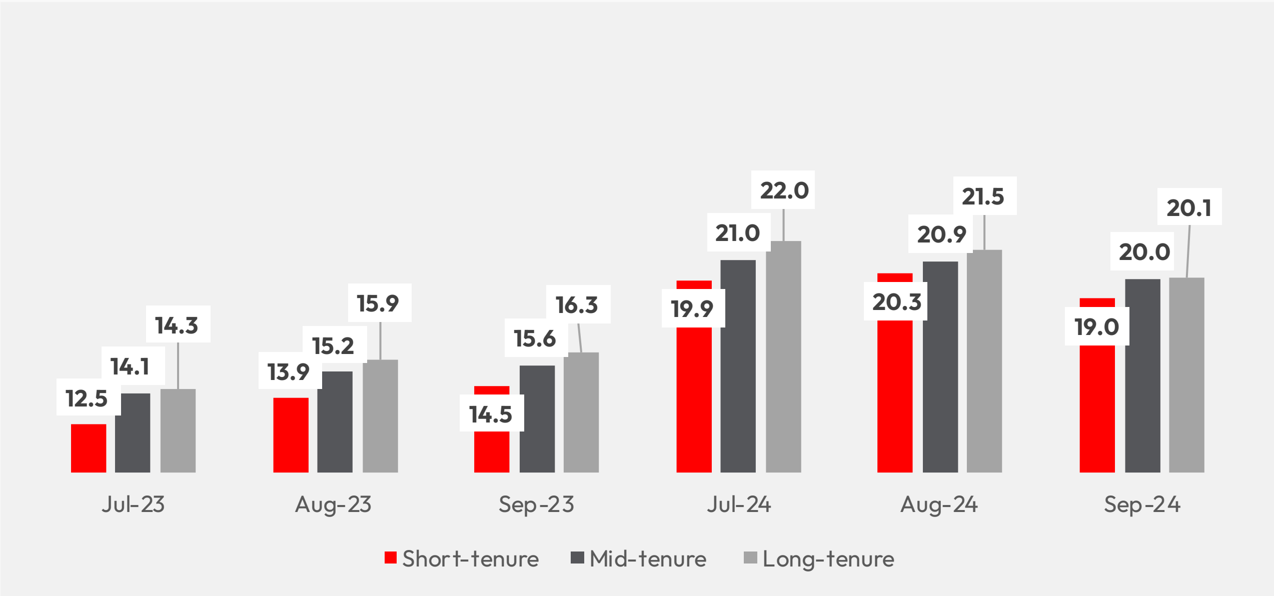


DEBT SERVICING COSTS: ELEVATED BORROWING COSTS

External Debt Servicing By Instruments

$'mn	H1-2023	H1-2024	% change	% of H1 -2024 Total
MULTILATERAL	386.75	1306.41	237.80%	58.31%
BILATERAL	175.61	241.35	37.44%	10.77%
EUROBONDS	592.24	576.30	-2.69%	25.72%
SYNDICATED LOANS	15.04	116.34	673.71%	5.19%
TOTAL	**1169.63**	**2240.40**	**91.55%**	**100.00%**

Interests in FGN Bonds have increased in 2024 compared to 2023 due to illiquidity in the financial system following the MPC's tightening stancet
FGN Bonds Auction Marginal Rate (%)

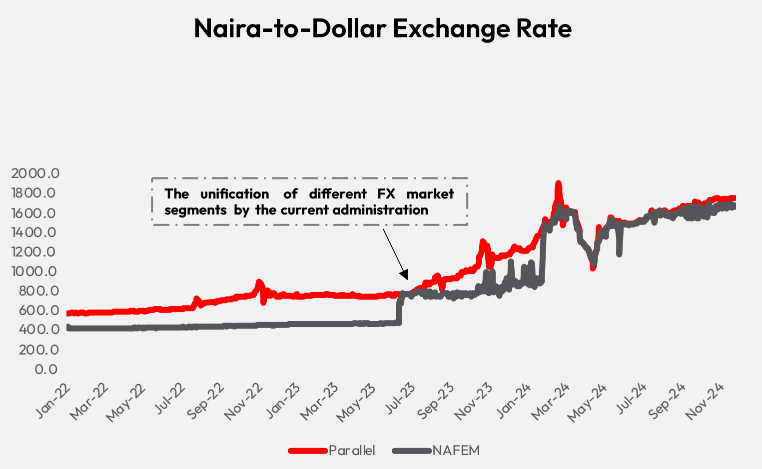


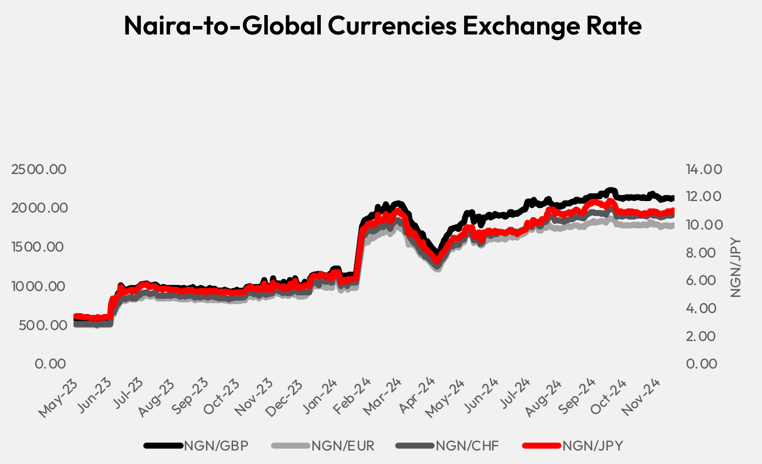
Source: DMO, United Capital Research

EXTERNAL SECTOR

- Exchange Rate
- External Reserves
- Foreign Trade
- Capital flows

EXCHANGE RATE: NAIRA LOSSES VALUE AGAINST GLOBAL CURRENCIES





- The volatility in the FX market persisted in 2024 following the unification of the different FX market segments. This led to the devaluation of the Naira from the N450.00/$ levels to N750.00/$ levels by the end of 2023

- So far in 2024, the Naira has depreciated by 82.94% YTD in the official market to settle at N1659.44/$ as at 26-Nov-2024 from N907.11/$ as at the start of the year. Similarly, the Naira has depreciated by 45.04% YTD in the parallel market to print at N1755.00/$ as at 26-Nov-2024 from N1210.00/$ as at the start of the year.

- Port Harcourt Refinery and Dangote Refinery's supply of Premium Motor Spirit (PMS), will help reduce PMS importation, with significant freight cost savings from domestic refining. The reduced demand for Dollars will help ease the pressures in the FX market. Ultimately, this will help strengthen the Naira against the Dollar and improve the exchange rate.

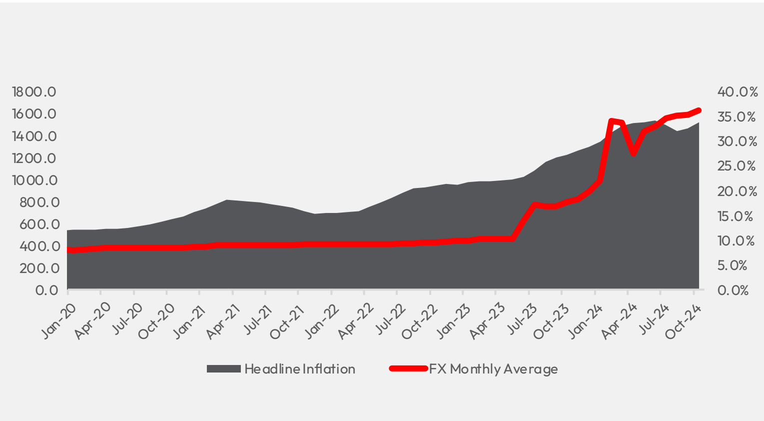
- Key risks to this outlook include potential fiscal reliance on CBN overdrafts amidst an expansive budget, unlikely CBN policy reversals that could widen negative real interest rate gaps, and significant oil production declines that may impact Dollar earnings. These factors could lead to reduced CBN FX sales to Bureaux De Change (BDCs) and the Nigerian Autonomous Foreign Exchange Market (NAFEM).

- That said, we project that N/$ will hover around N1800.00/$ - N2000.00/$ in the official market and N1900.00/$ - N2,200.00/$ in the parallel market.

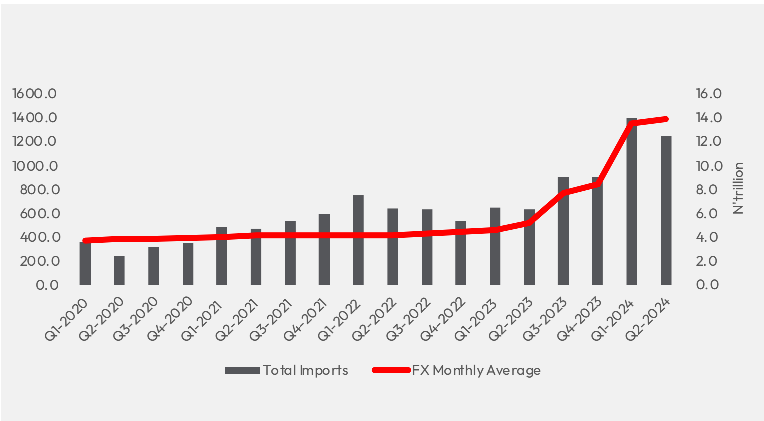
Source: Bloomberg, United Capital Research

IMPACT OF EXCHANGE RATE ON INFLATION, TRADE, AND DEBTS

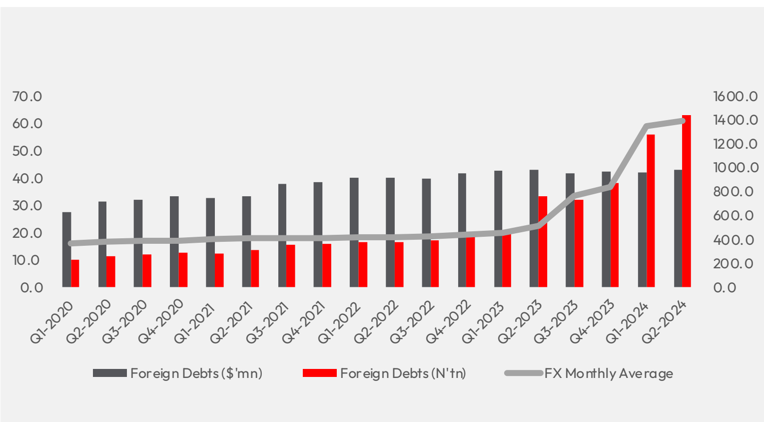
Headline Inflation vs FX Monthly Average



Total Imports vs FX Monthly Average



Foreign Debt vs FX Monthly Average



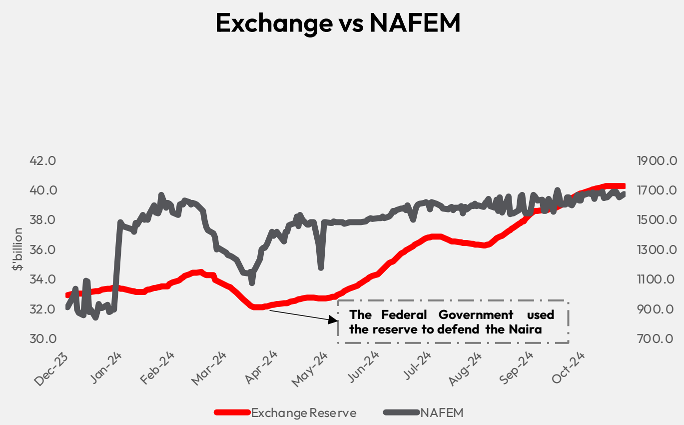
- **Headline Inflation:** Inflationary pressures remained elevated following the devaluation of the Naira in 2023. Nigeria is heavily dependent on imported food items due to weak manufacturing capacity and low quality of local produce. The pass-through effect of the exchange rate resulted in a surge in the general price level within the nation.

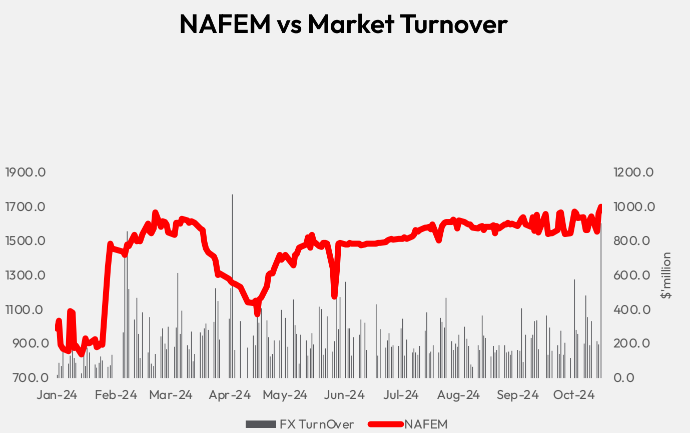
- **Trade:** Import bills increased largely due to improved local demand for imported goods. Nevertheless, these import costs surged higher as a result of the weakening of the Naira.

- **Foreign Debts:** In Naira terms, Foreign debts inched higher due to the depreciation of the Naira against the Dollar. Notably, foreign debts did not increase in Dollar terms.

Source: DMO, FMDQ, United Capital Research

EXTERNAL RESERVES: NAIRA WEAKENS DESPITE HIGHER LIQUIDITY IN THE RESERVES





- Nigeria's external reserves have seen a significant upsurge, reaching \$40.26bn as of 25-Nov-2024, marking a notable 22.32% YTD rise from \$32.91bn at the start of the year.

- During the year, the government was able to secure Dollar loans from the IMF and World Bank, which helped improve Dollar inflows. Also, Nigeria raised its first-ever foreign-currency domestic bond and secured a total of \$900.00mn in subscriptions. This marks an oversubscription rate of 180.00% compared to the offer size of \$500.00mn. The oversubscription reflects local investor confidence in Nigeria's economic stability and potential for growth.

- This looks impressive, but the reality for the Naira is far more complex. Despite the surge in the reserves, the Naira has continued its downward trend in both the official and parallel markets. Year-to-date, the Naira has depreciated by 85.08% in the official market and 43.80% in the parallel market.

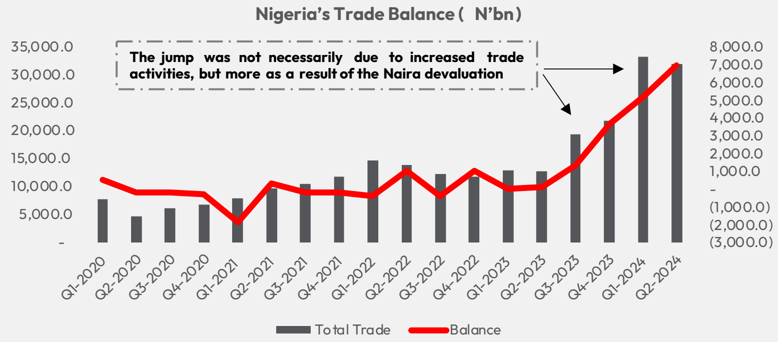
- Lastly, the International Finance Corporation (IFC), a member of the World Bank Group, and the Central Bank of Nigeria (CBN) announced an agreement to scale up local currency financing, unlocking over \$1.00bn in investments across key sectors of the Nigerian economy.

- The agreement will provide Naira-based financing to sectors such as agriculture, infrastructure, housing, energy, small and medium enterprises, and Nigeria's youth and creative industries.

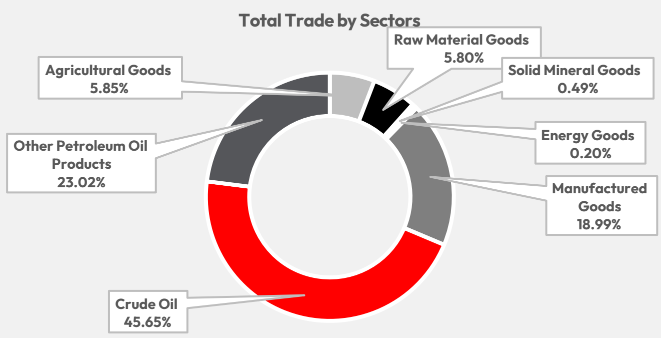
Source: FMDQ, United Capital Research

TRADE BALANCE: TRADE SURPLUS EXPANDS FURTHER

Nigeria's Trade Balance (N'bn)



Total Trade by Sectors



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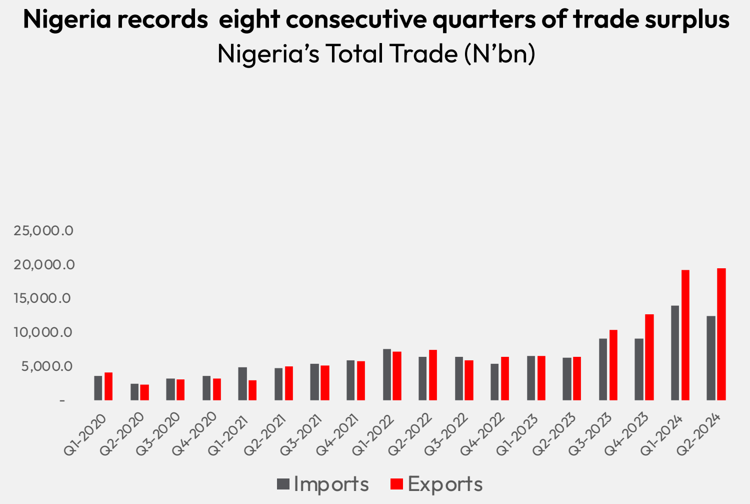
Source: NBS, United Capital Research

TRADE BALANCE: TOTAL TRADE IMPROVED DUE TO HIGHER EXPORT RECEIPTS



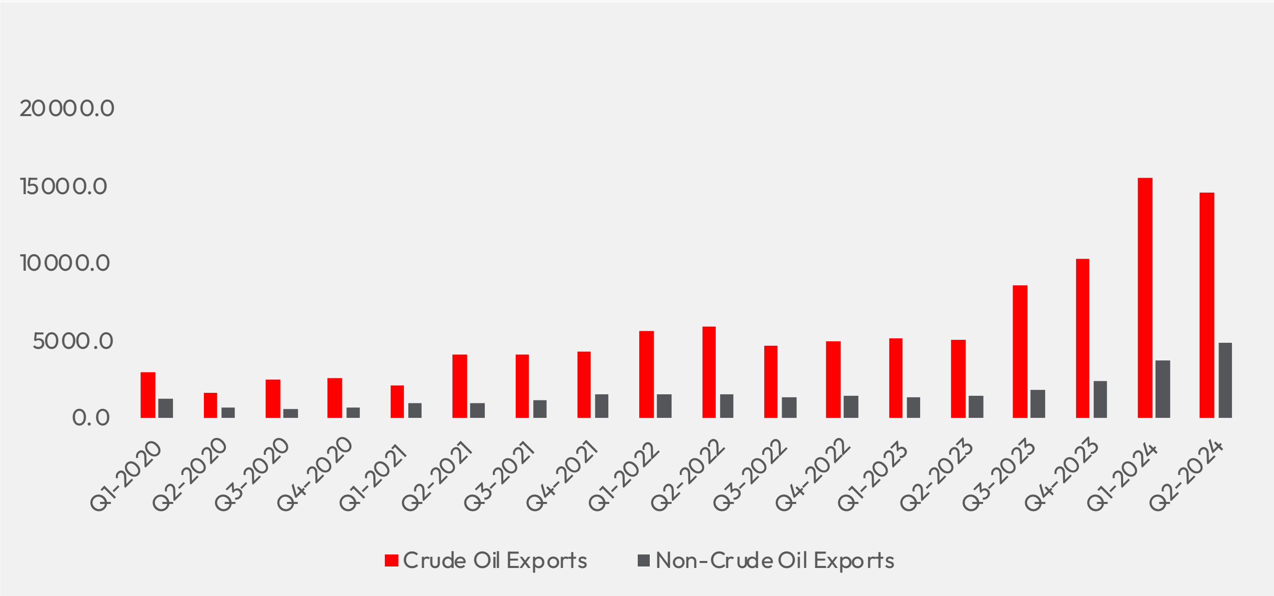
- Taking a dive into the numbers revealed that total exports grew by 201.8% y/y to N19.4tn, driven by higher crude oil exports as demand for crude oil remained strong. In addition, higher crude oil prices supported the growth in export value as the average Brent Crude oil price climbed by 4.0% q/q and 9.4% y/y to $85.03/bbl. in Q2-2024 from $81.76/bbl. and $77.73/bbl. in Q1-2024 and Q2-2024, respectively.
- Interestingly, crude oil exports contributed 75.00% of the total export bills as Nigeria made N14.6tn from crude oil exports, up 190.90% y/y. However, crude oil export receipts declined by 6.00% q/q due to low production levels recorded in Q2-2024. According to the Q2-2024 Gross Domestic Product (GDP) report by the NBS, Nigeria's crude oil output fell from 1.57mbpd in Q1-2024 to 1.41mbpd in Q2-2024.
- More positively, the proportion of the country's non-oil exports to total exports increased from 19.20% in Q1-2024 to 25.00% in Q2-2024, indicating some progress in the country's efforts to diversify its FX earnings. Nevertheless, we note that the critical factor driving the increase in trade numbers was the depreciation of the Naira over the period.
- On the other hand, import bills expanded to N12.5tn in Q2-2024, up 97.90% y/y from N6.3tn, largely due to improved local demand for imported goods. In addition, we note that the global inflationary environment was broadly elevated, impacting the nominal value of trade activities and, consequently, Nigeria's imports.

Source: NBS, United Capital Research

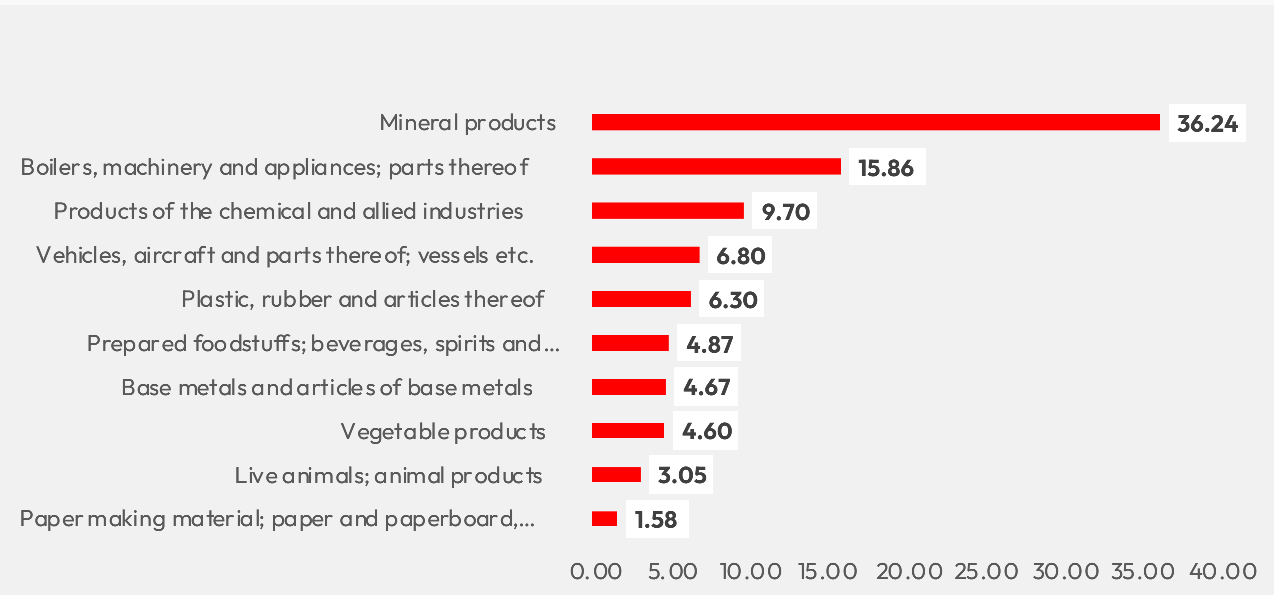
IMPORT & EXPORT BY TYPE OF PRODUCT

Crude oil exports accounted for the bulk of exports, reflecting the lack of diversification to other sectors of the economy. Nevertheless, the proportion of non-oil exports is increasing at a slow pace

Exports by Type of Product (N'bn)



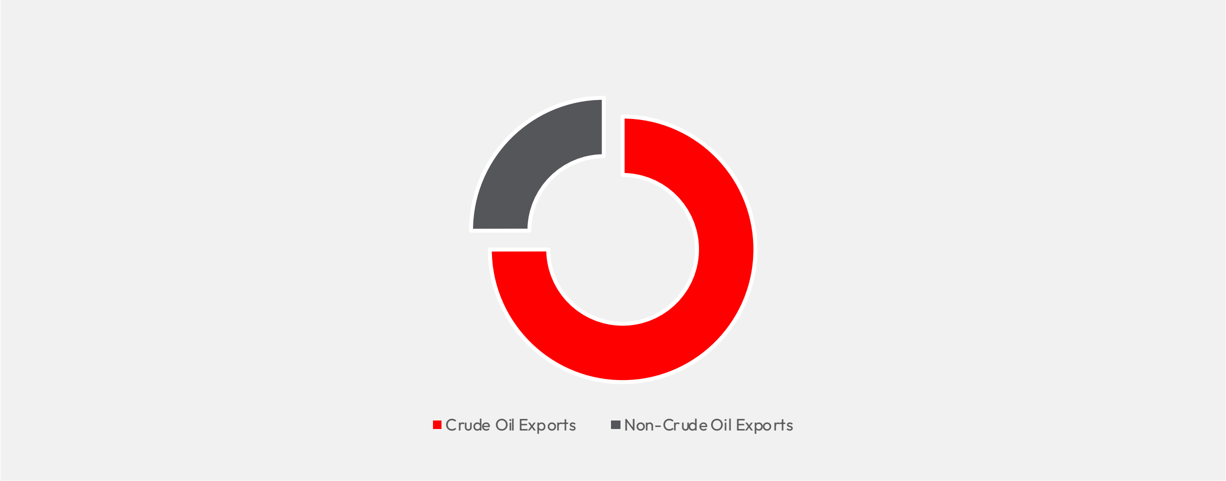
Distribution of Import by Type of Product (N'bn)



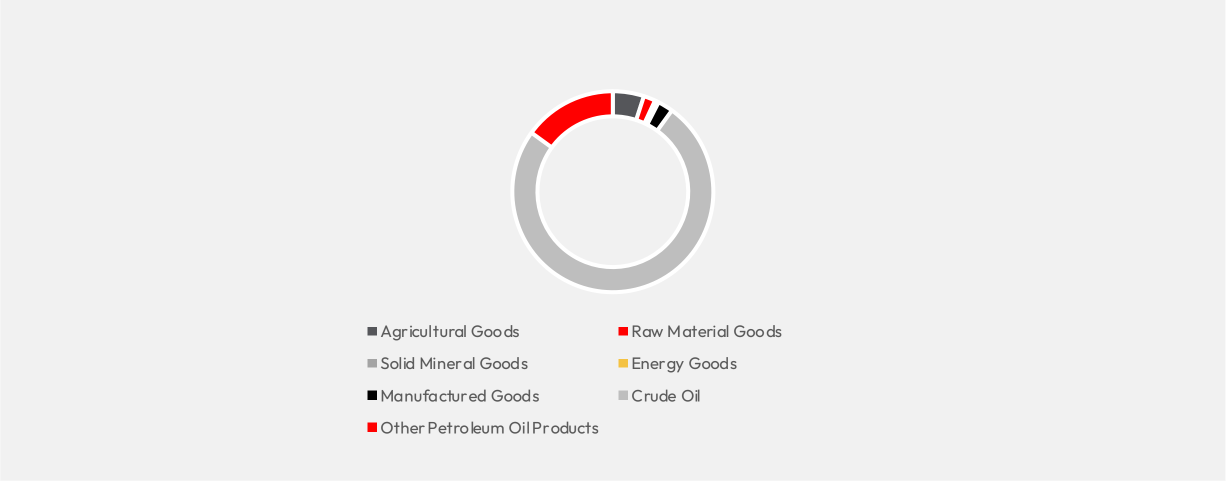
Source: NBS, United Capital Research

IMPORT & EXPORT BY TYPE OF PRODUCT

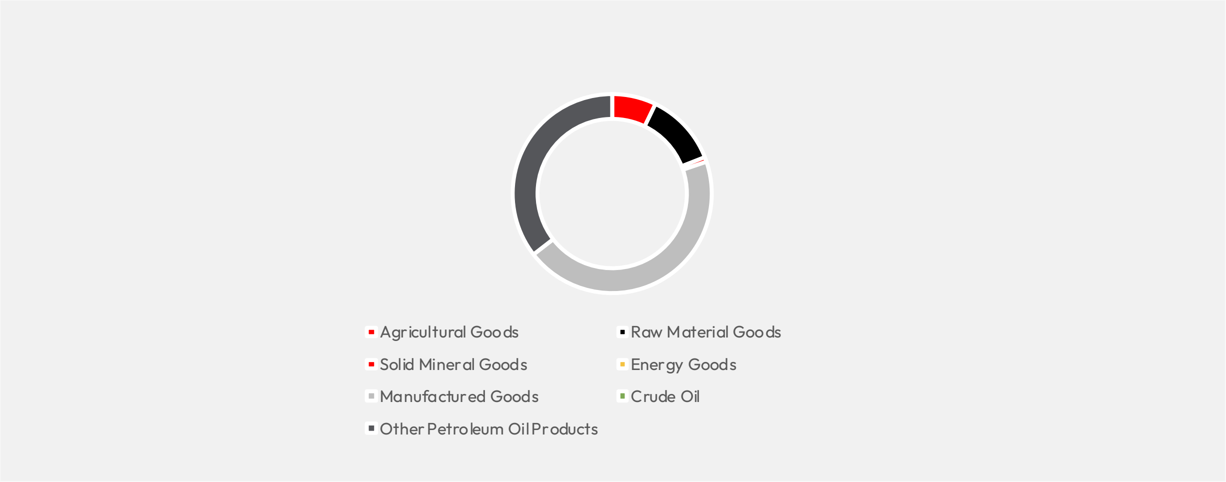
Distribution of Export by Type of Product



Distribution of Export by Sectors

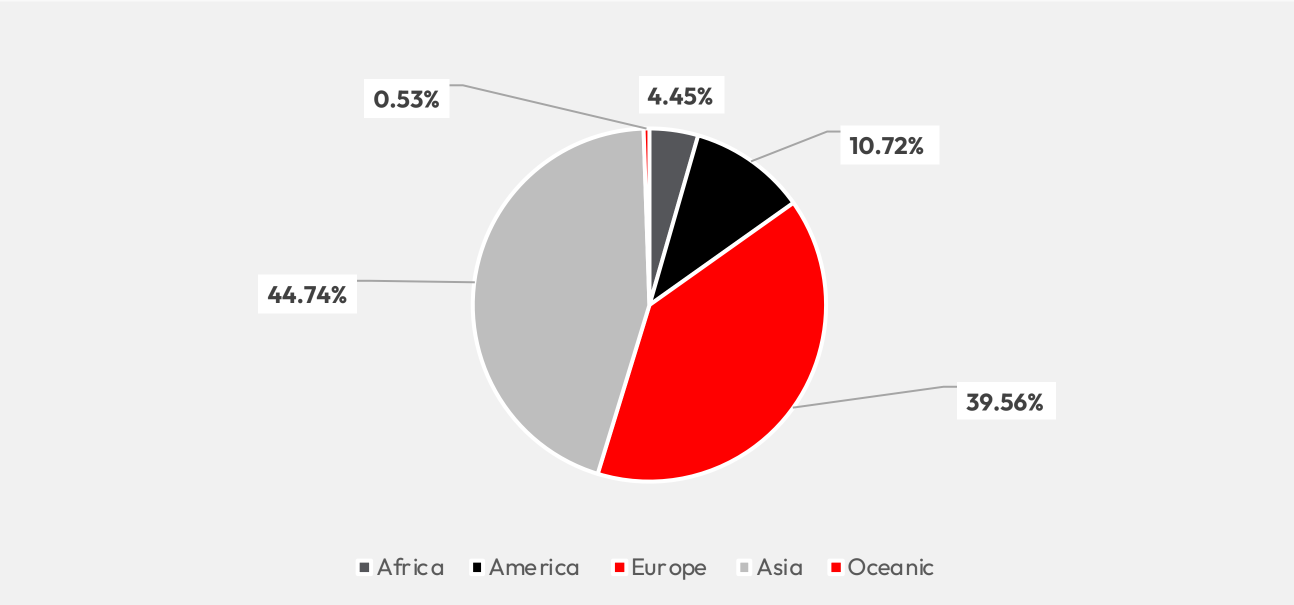


Distribution of Import by Sectors

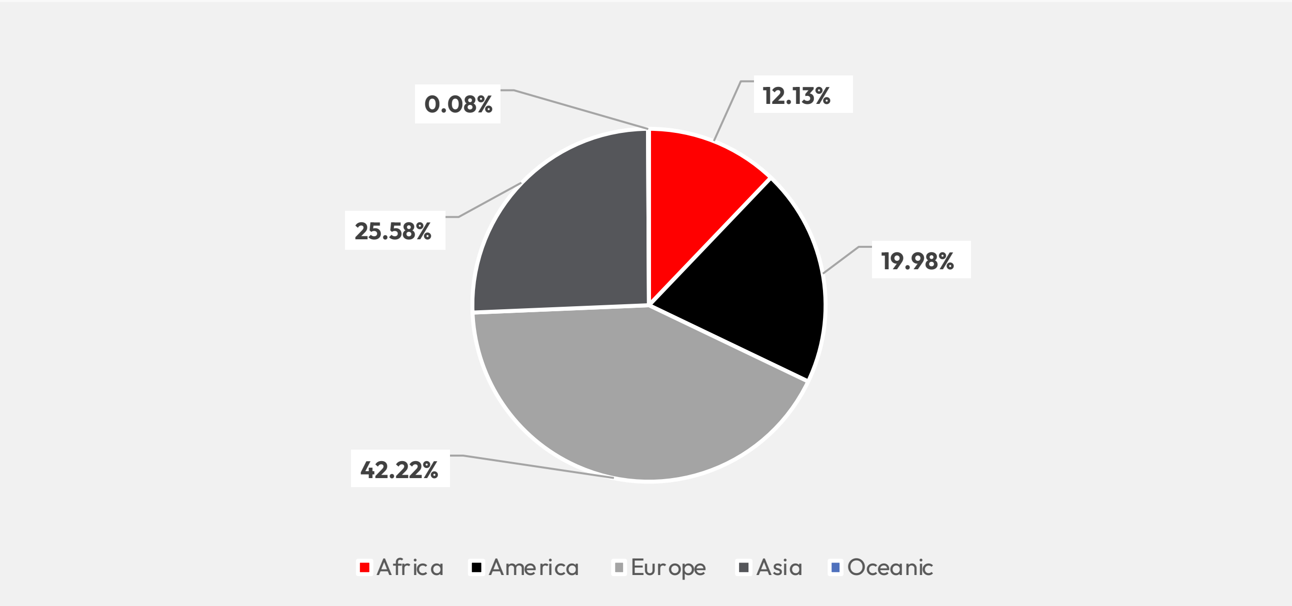


IMPORT & EXPORT BY DESTINATION

Distribution of Imports by Region



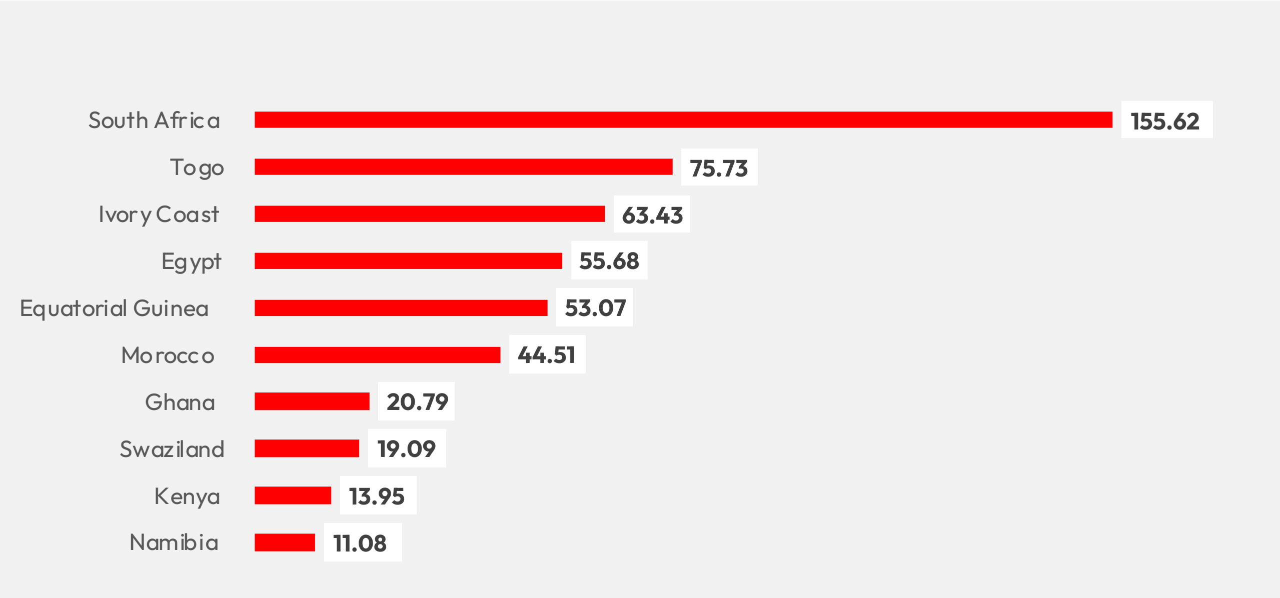
Distribution of Exports by Region



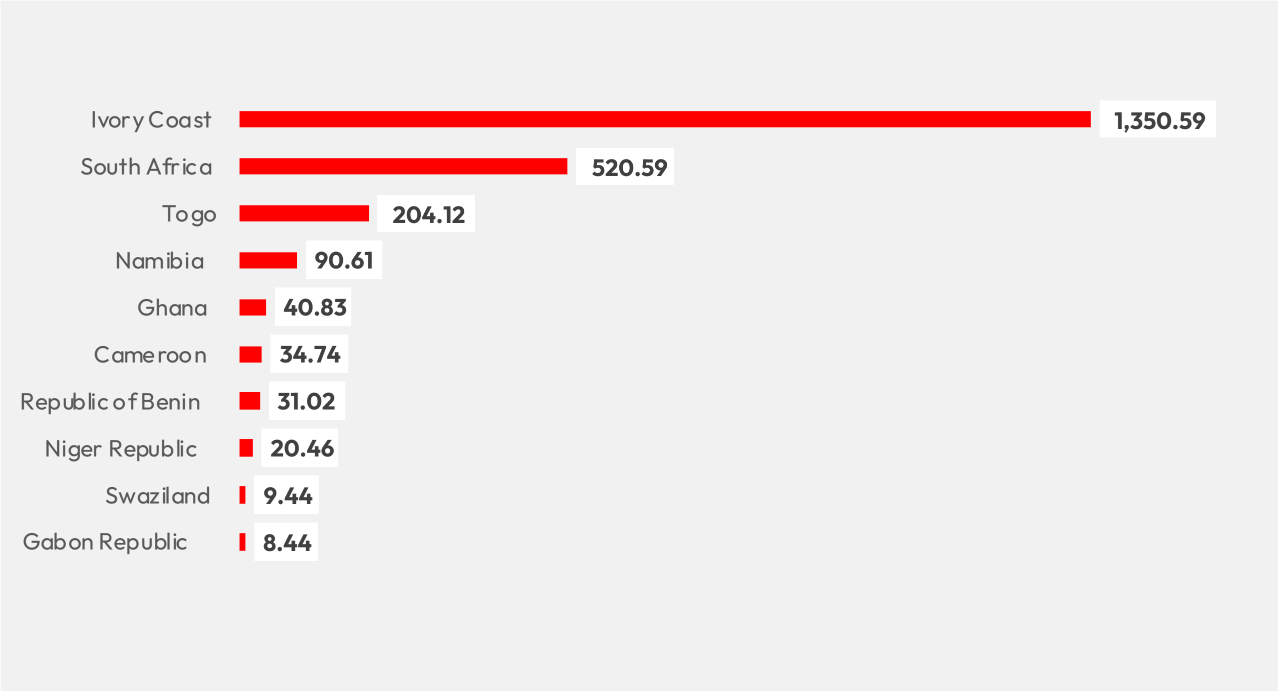
Source: NBS, United Capital Research

IMPORT & EXPORT BY DESTINATION

Exports with Top 10 African Countries (N'bn)



Exports with Top 10 African Countries (N'bn)

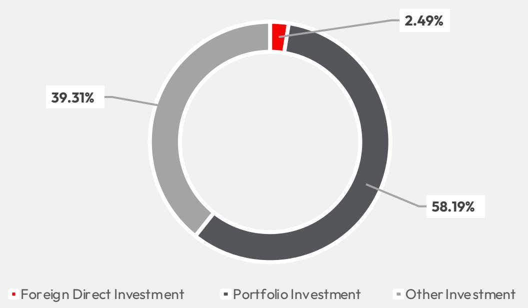


Source: NBS, United Capital Research

CAPITAL IMPORTATION: REBOUNDS IN CAPITAL INFLOWS INTO NIGERIA

Nigeria's Capital Importation by Type ($'bn) of investments

Distribution of Capital Importation by Type of Investment



- Asides trade, another major source of Dollar earnings for Nigeria is foreign capital inflows. It had been riding on a weak momentum since the Covid-19 pandemic hit the nation in 2020. Capital flows crashed from the high levels of $5.85bn in Q1-2020 to as low as $875.62mn and $654.65mn in Q2-2021 and Q3-2023, respectively. We observed a capital flight as foreign investors were negatively biased towards investing in the Nigerian economy given the macroeconomic woes and volatility in the financial markets.

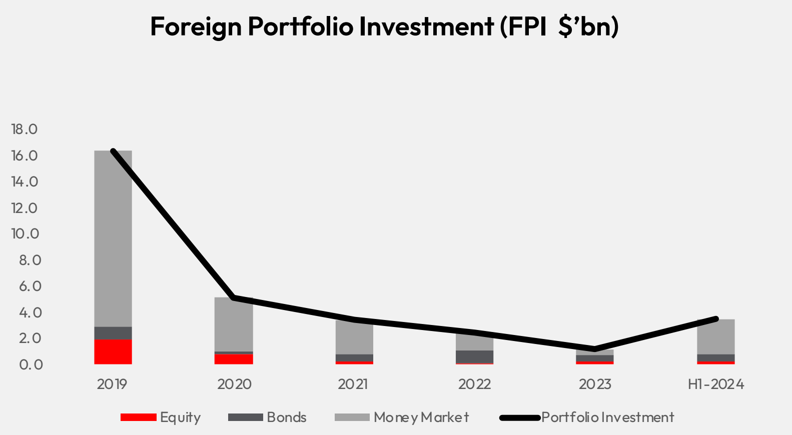
- However, the tide was turned around in 2024 as the current administration looked to boost foreign capital inflows into the nation. As a result, total capital imported into the country in H1-2024 printed at $5.98bn. This represents a 176.51% y/y increase when compared to $2.16bn in H1-2023.

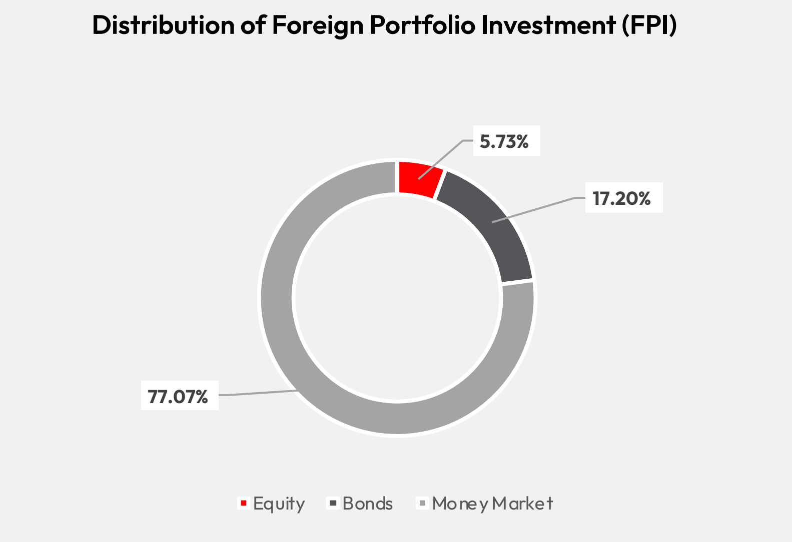
- Foreign Direct investment (FDI) remains underwhelming, contributing only 2.49% to the total capital imported into Nigeria. Total FDI inflows rose by 11.50% y/y from $133.63mn in H1-2023 to $149.01mn in H1-2024. We note that debt sustainability concerns, insecurity, and a chronic lack of enabling infrastructures, such as power and transportation constraints, continue to discourage long-term commitments to the country through FDI.

- Meanwhile, we observed improvements in the Other Investments category, as it increased by 84.69% y/y from $1.27bn in H1-2023 to $2.35bn in H1-2024. This category accounted for 39.31% of the total capital imported. Inflows emanated mainly from loans.

Source: NBS, United Capital Research

FOREIGN INVESTORS' INTEREST IN MONEY MARKET INSTRUMENTS INCREASED





- Taking a further dive into the numbers, Foreign Portfolio Investment (FPI) contributed the bulk of the total capital imported into Nigeria in H1-2024, accounting for 58.19% (23.32ppts higher than its 34.96% contribution in H1-2023). Total FPI inflows printed at $3.48bn in H1-2024, 360.28% y/y higher than its prints of $756.13mn in H1-2023.

- Notably, foreign investments majorly flowed into money market instruments, which expanded by 1830.68% y/y to settle at $2.68bn in H1-2024 compared to the $138.93mn recorded in H1-2023.

- This is on the back of the higher money market rates experienced in the period under review. In 2024, the CBN began its inflation-targeting framework and strong fight against FX pressures. Accordingly, the CBN conducted OMO auction to mop-up excess liquidity and offered very attractive rates to appeal foreign investors into the nation.

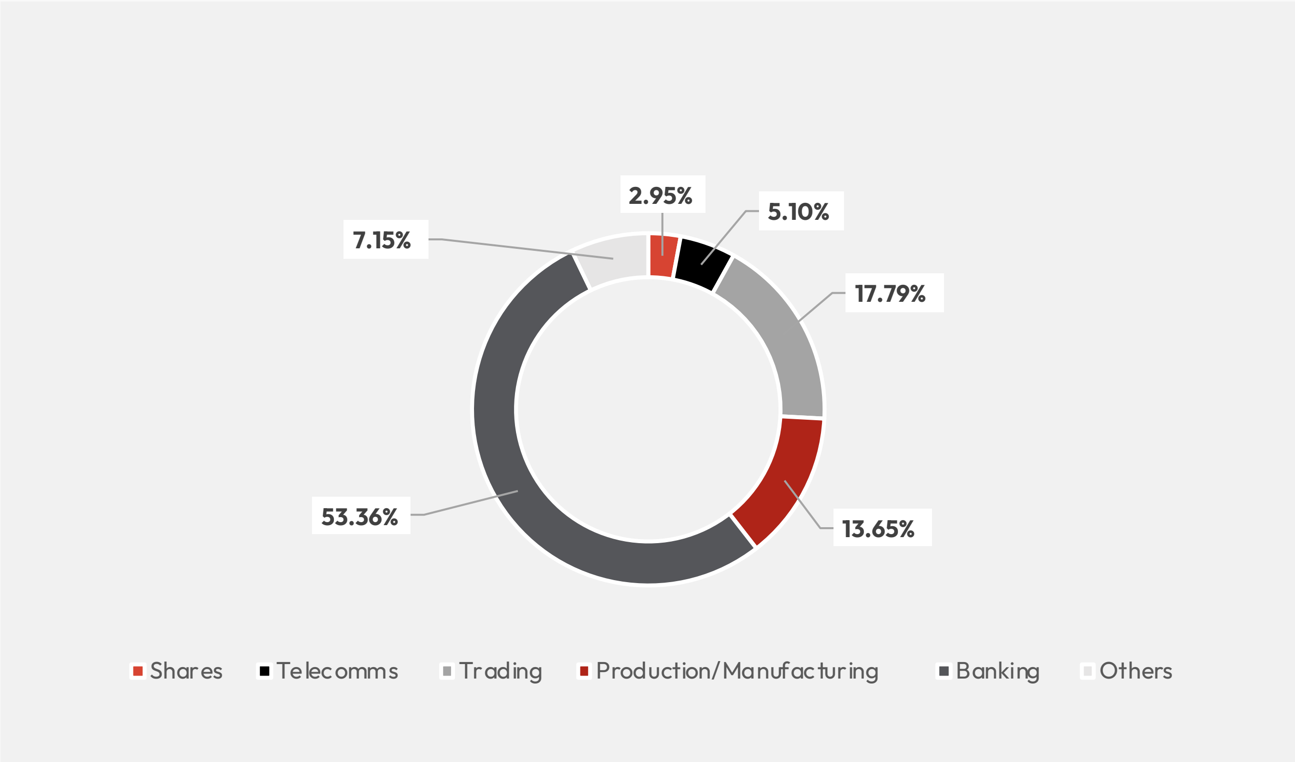
- Meanwhile, foreign investments into the Nigerian equities market remains low given the volatility in that market. Also, the instability of the Naira to Dollar exchange was another factor that weighed on foreign investors' sentiments. That said, total inflows into the equities market decreased by 13.66% y/y from $230.83mn in H1-2023 to $199.29mn in H1-2024.

- Lastly, total inflows into bond instruments climbed by 54.93% y/y from $386.37mn in H1-2023 to $598.61mn in H1-2024, given the elevated yield environment in 2024.

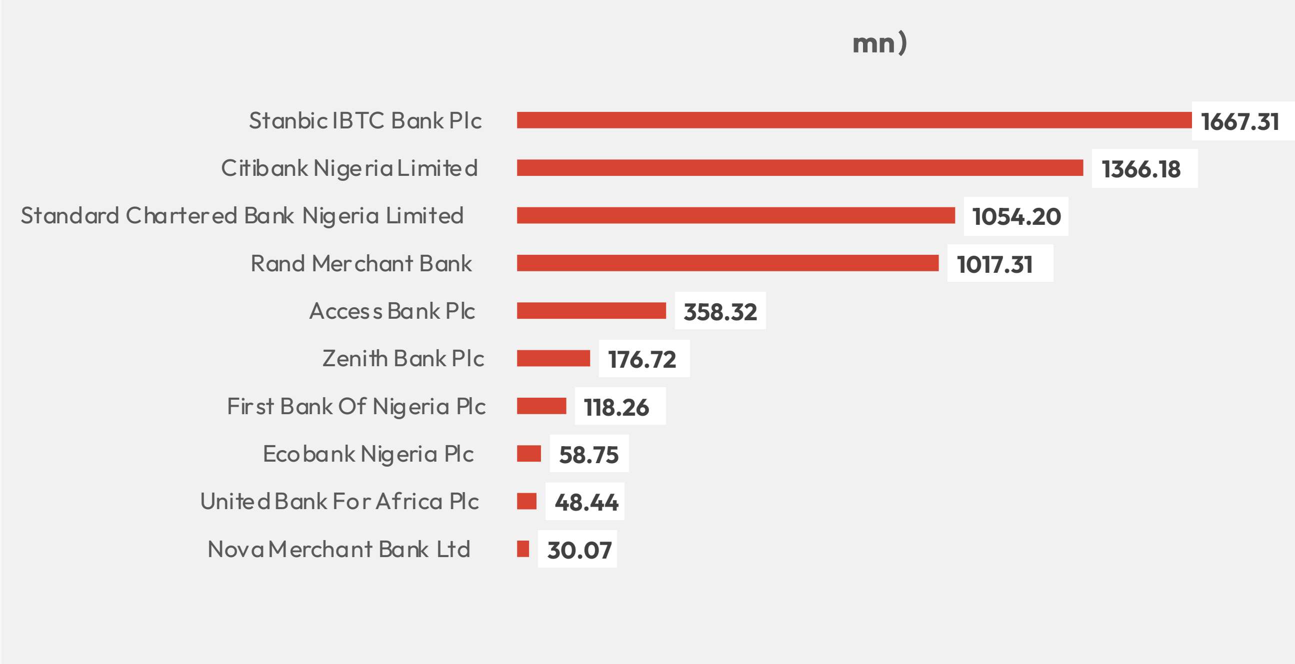
Source: NBS, United Capital Research

CAPITAL IMPORTATION ANALYSIS

Capital Importation by Sector



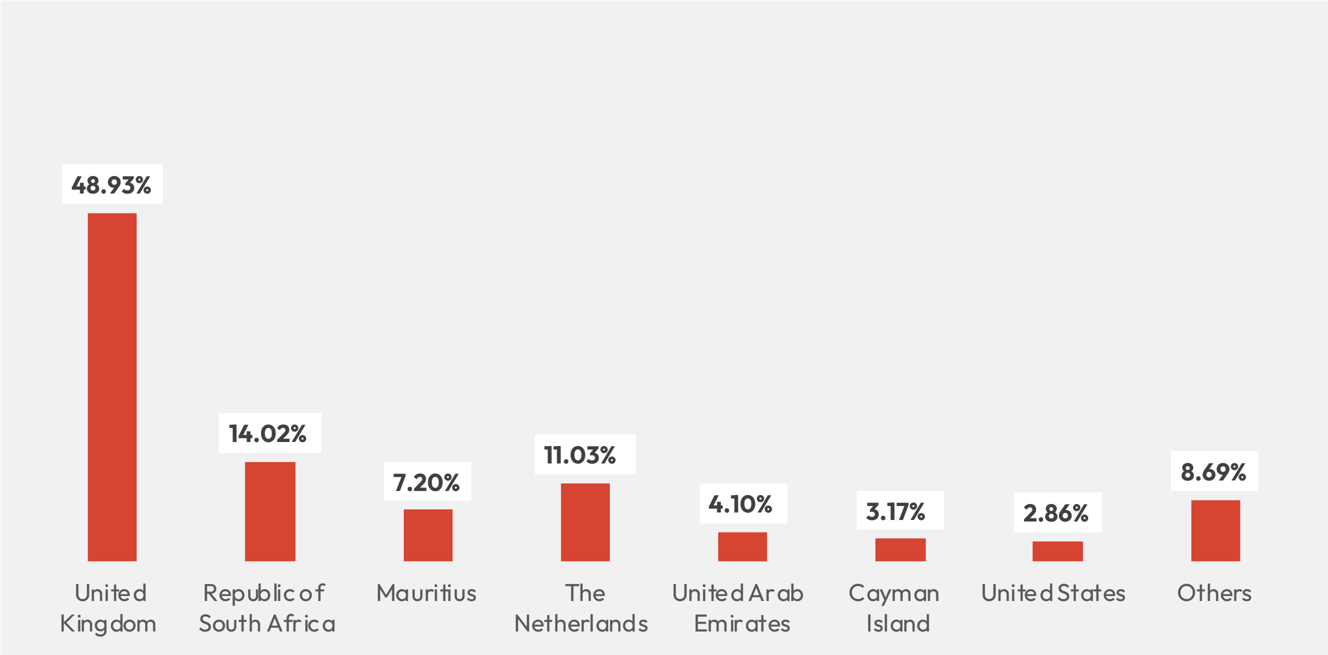
Capital Importation by Banks ($'mn)



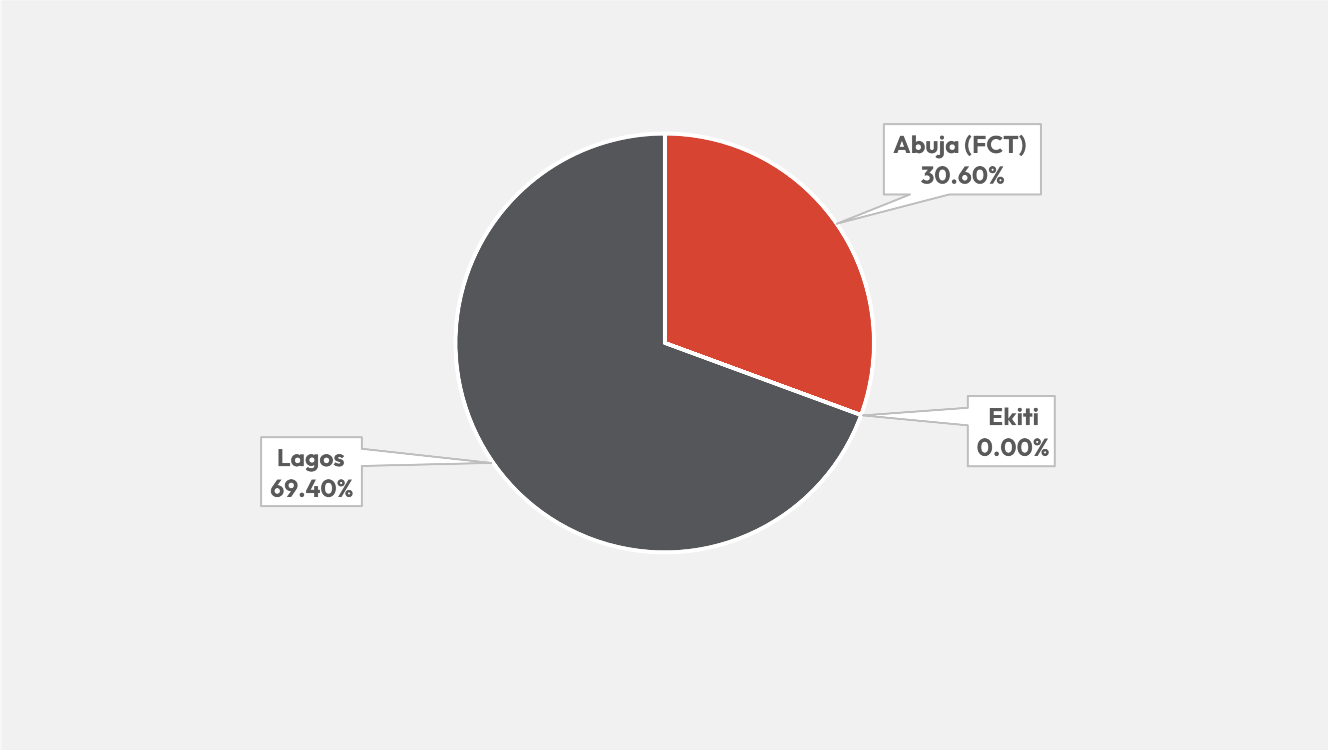
Source: NBS, United Capital Research

CAPITAL IMPORTATION ANALYSIS

Capital Importation by Originating Country



Capital Importation by Distribution



Source: NBS, United Capital Research