

■ EXECUTIVE SUMMARY 1/4

2024 Global Review:

The global economy in 2024 presented a mixed picture. While some regions like the US and the Eurozone showed mixed performance, the UK showed signs of recovery, others like China faced challenges.

The US economy showed mixed performance in Q1-Q3 2024: slow growth in Q1 (1.60%), a rebound in Q2 (3.00%), and a slowdown in Q3 (2.70%). Overall growth was impacted by global factors, high interest rates, and economic adjustments. Inflation rose in Q1 but eased to 2.30% in Q3, with an uptick towards the end of 2024 (2.60%), suggesting slower rate cuts in 2025. The Fed cut rates three times in 2024 by 100bps to address inflation.

In China, economic growth slowed from 5.30% in Q2 to 4.60% in Q3 due to weak demand and a property sector downturn. The IMF projects a growth of 4.8% in 2024. China's monetary policy supported recovery via stimulus, with new loans reaching RMB13.3trillion and manufacturing growth. Corporate loan rates fell to 3.63%, and the RMB appreciated by 2.70%.

The UK economy grew by 0.30% in Q1, 0.70% in Q2 and 0.10% in Q3-2024, driven by the services sector, rising wages, and lower inflation. The IMF projects 1.10% growth for 2024, supported by rate cuts, government stimulus, and easing supply chains. UK's inflation dropped from 11.10% in 2022 to 1.70% in 2024, with a rise to 2.50% expected by year-end. The BoE cut rates twice in 2024 to 4.75%.

The Eurozone economy grew by 0.90% in Q3-2024, the strongest in two years, driven by France and Spain, while Germany avoided recession, but Italy stalled. The ECB forecasts 0.80% growth for 2024. Inflation dropped to 1.70% in September but rose to 2.00% in October due to base effects and supply chain issues. Central banks in the region, including the ECB, have started rate cuts to support growth.

Japan's economy grew by 0.70% in Q2 and 0.30% in Q3-2024, with wage increases and automotive recovery. The IMF projects slower growth of 0.30%

in 2024 due to demographic challenges. Inflation peaked at 3.00% in August before falling to 2.50% in September. The BoJ raised its policy rate to 0.25% to address yen depreciation and plans to cut bond purchases to ¥3.00 trillion by Q1-2026.

2025 Global Outlook:

- **Global GDP:** IMF foresees 3.30% growth in 2025 compared to estimated 3.20% in 2024. This is due to the slower expansion in China, potential tariff wars and structural challenges in advanced economies.

Advanced economies will grow at 1.80%, while emerging markets and developing economies maintain a stronger pace of 4.20%.

- **Inflation:** Inflation would moderate further, falling from estimated 5.90% in 2024 to 4.50% in 2025, due to easing supply chain issues and stabilizing commodity prices, however, inflation will remain above pre-pandemic levels.

Advanced economies will likely see inflation closer to 2.30%, aligning with policy targets.

- **Interest Rates:** Central banks will continue to adjust interest rates to balance economic growth and inflation. The Fed may lower policy rate gradually, while the ECB may cut rates more aggressively due to weak economic performance.

- **Geopolitical Tension:** Trump and other world leaders may broker peace between Russia and Ukraine, failing which may impact global supply chains fostering inflation.

- **Economic Policies and Investments:** Climate change and sustainability will remain important factors influencing economic policies and investment decisions in 2025.

EXECUTIVE SUMMARY 2/4

2024 Sub-Saharan Africa Review:

South Africa's post-pandemic economic recovery has been uneven. While Q1-2024 contracted by 0.10%, Q2-2024 saw a 0.40% GDP rebound driven by increased consumer spending and a stable electricity supply, but Q3 fell by 0.30%. Unemployment rates have remained stubbornly high at a peak of 33.50% in Q2-2024 before declining to 32.10% in Q3-2024. The IMF projects a 1.10% growth rate for 2024, with unemployment expected to settle at 33.70%. South Africa's inflation rate has been steadily declining, reaching 3.80% in Sept-2024 from a peak of 5.60% in Feb-2024. This moderation is attributed to a stable rand, favorable trade balances, and lower import costs. The IMF projects inflation to average 4.70% in 2024, below the AfDB's forecast of 4.80%. In response to easing inflation, the SARB cut its key interest rate by 25bps to 8.00% in Sept-2024, and a further 25bps bringing the rate to 7.75%.

Kenya's GDP declined from 5.10% in Q4-2023 to 5.00% in Q1-2024 and 4.60% in Q2-2024, affected by political unrest, and insecurity. The IMF projects a 5.00% GDP growth rate for 2024. Inflation has declined to 5.14% in Oct-2024, within the CBK's target range of 2.50%-7.50%. The CBK has cut interest rates twice to 12.00% to bolster economic growth. The IMF forecasts 2024 inflation at 5.10%. Kenya's inflation dropped further to 2.80% in Nov-2024.

Ghana's economy experienced significant growth in Q2-2024 of 6.90%, driven by successful debt restructuring, IMF program adherence, and rising commodity prices. However, currency volatility remains a concern. The IMF projects a 3.10% GDP growth rate for 2024. While economic recovery is underway, Ghana's debt burden continues to rise. Ghana's inflation averaged 22.83% in the first ten months of 2024 but rebounded to 22.10% in October. Despite recent pressures, the IMF projects 2024 inflation at 19.50%, down from 39.20% in 2023. In response to the easing inflation, the Bank of Ghana reduced its interest rate by 200bps to 27.00%.

Ivory Coast's GDP grew from 5.70% in Q4-2023 to 6.50% in Q2-2024, driven by higher cocoa and coffee exports. The IMF projects GDP growth at 6.50% in 2024, up from 6.20% in 2023. Inflation moderated to 2.8% in Q3-2024, with the IMF

forecasting 3.8% for 2024, down from 4.4% in 2023. Interest rates have remained unchanged at 5.50%.

2025 Sub-Saharan Africa Outlook:

- **SSA GDP:** IMF forecasts a growth rate of 4.20% in 2025, up from estimated 3.60% in 2024.

Growth will be driven by rising private consumption, investment, and potential exploitation of natural resources during the global low-carbon transition. However, growth remains uneven, with large economies like Nigeria and South Africa facing structural challenges in energy, transportation, and governance.

- **Inflation:** SSA Inflation would decline from estimated 18.10% in 2024 to 12.30% in 2025. It will remain above pre-pandemic levels in several countries, driven by food and energy costs, currency depreciation, and supply chain disruptions.
- **Interest Rates:** Monetary policy decisions across the region will vary, with hawkish stances in high-inflation countries and potential rate cuts where inflation eases.
- **Debt Distress:** A significant portion of countries in the region will continue to grapple with high debt distress risks, with about 53.00% of IDA-eligible countries facing high risk or already in debt distress. This will complicate fiscal space for necessary investments.
- **Currency Depreciation:** Currency depreciation will continue, exacerbated by reliance on imports and weak export revenues.
- **Challenges:** Political instability, climate change, and conflicts remain significant barriers to economic progress.
- **Opportunities:** Rapidly growing working-age population, abundant natural resources, and digital economy offer an avenue for economic growth.

EXECUTIVE SUMMARY 3/4

2024 Domestic Economy Review:

The Nigerian economy was resilient in 2024, growth was faster than in 2023, despite macroeconomic challenges. Real GDP grew by 3.46% y/y in Q3-2024 and 3.19% y/y in Q2-2024, up from 2.51% in Q2-2023 and 2.98% in Q1-2024. The non-oil sector contributed 94.30% of GDP, grew by 2.80% y/y in Q2-2024, slightly below the 3.58% in Q2-2023 due to tight monetary policy, volatile exchange rates, and reduced spending.

Since 2016, Nigeria has faced persistent double-digit inflation driven by high energy costs, imports, and Naira depreciation. Headline inflation peaked at 34.19% y/y in Jun-2024, the highest since 1996, up from 28.92% in Dec-2023. Inflation eased slightly in July and Aug-2024 due to a high base effect. However, it rebounded to 32.70% y/y in September, driven by high cost of PMS, and severe floods affecting food supply.

Thus, the MPC maintained a hawkish stance. It raised the MPR by a cumulative 850bps across five meetings, bringing the MPR to 27.25% in September from 18.75% in Dec-2023. It further increased to 33.88% in Oct-2024 and 34.60% in November. The CRR was tightened by 17.50ppts to 50.00%, while the Asymmetric Corridor was adjusted to +500/-100bps. The Liquidity Ratio remained stable at 30.00%.

Meanwhile, revenue generation in Q2-2024 fell by 43.20% below the pro-rated budget, totaling N6.29tn against the N9.00tn target. Oil revenue underperformed at N1.73tn versus the N5.30tn budget, while non-oil revenue was stable due to tax reforms. Expenditure reached N12.19tn in H1-2024, with Q2 spending rising by 27.79% q/q to N6.84tn. Debt servicing costs dominated, accounting for 65.03% (N4.45tn), above N2.07tn budget. Thus, the fiscal deficit grew by 16.56% q/q to N4.53tn, nearly doubling the N2.29tn budgeted.

Debt sustainability was increasingly precarious due to weak revenue and heavy reliance on borrowing. Public debt rose by 144.06% y/y to N121.67tn in Q1-2024, with domestic debt accounting for 53.95% (N65.65tn), up by 117.30% y/y, driven by the securitization of N22.70tn in CBN loans under the Ways and Means provision. Foreign debt surged by 185.20% y/y to N56.02tn due to a 188.97% depreciation of the Naira to

N1,330.26/\$. However, in Dollar terms, foreign debt decreased slightly by 1.30%, as Nigeria avoided the ICM in 2024.

FX volatility persisted in 2024, with the Naira depreciating by 85.08% YTD in the NAFEM to N1,678.87/\$ and 43.80% YTD in the parallel market to N1,740.00/\$ as of Nov-2024. Dangote Refinery's domestic fuel supply was expected to ease Dollar demand and strengthen the Naira. However, low crude oil revenues continued to affect FX supply.

Nigeria's external reserves rose by 19.20% YTD to \$39.23bn as of Nov-2024, boosted by Dollar loans from the IMF and World Bank, and \$900m raised via the foreign-currency domestic bond, which was oversubscribed by 180.00%. Despite this, the Naira continued to depreciate, down by 85.08% in the official market and 43.80% in the parallel market YTD.

Total trade merchandise stood at N31.90tn in Q2-2024, down 3.80% q/q but up by 150.40% y/y compared to Q2-2023, which was impacted by electioneering and Naira redesign policy. The trade surplus widened to N6.90tn, increasing by 33.60% q/q and 5,115.00% y/y. Naira's devaluation since mid-2023 boosted trade figures in Naira terms.

Foreign capital inflows rebounded in H1-2024, reaching \$5.98b, a 176.51% y/y increase from \$2.16b in H1-2023, reversing the decline since the Covid-19 pandemic. Foreign Direct Investment (FDI) was low, contributing 2.49% of total inflows, with an 11.50% y/y rise to \$149.01m. Debt sustainability concerns, insecurity, and infrastructure gaps continue to deter FDI. However, "Other Investments" saw strong growth of 84.69% y/y (\$2.35b).

In H1-2024, FPI dominated Nigeria's capital inflows, accounting for 58.19% of total imports, relative to 34.96% in H1-2023. FPI inflows rose by 360.28% y/y to \$3.48bn due to money market investments, which rose by 1,830.68% y/y to \$2.68bn due to higher rates offered by the CBN. However, foreign investment on the NGX fell by 13.66% y/y due to volatility and Naira instability. Bond instrument inflows rose by 54.93% y/y to \$598.61m, benefiting from higher yields.

■ EXECUTIVE SUMMARY 4/4

2024 Domestic Economy Review:

In 2024, NGX grappled with high inflation and CBN's hawkish stance. Inflation and Naira depreciation impacted corporates, especially those in the telecoms, brewing, and consumer goods sectors. The sharp Naira depreciation, peaking at N1,900-N2,100/\$ affected firms with FX liabilities. High financing costs led some blue chips to pursue IPOs or Rights Issues for funding. In the fixed income market, long-dated bonds were quiet, mainly in the secondary market, due to short-term instruments' dominance. Irregular auction calendars resulted to bond supply uncertainty with the DMO raising 85.00% of the annual bond target (N4.67trn of N5.48trn). Supply and demand, system liquidity, and MPR movements affected bonds yields in 2024. The CBN prioritized OMO for liquidity management, supported by higher FAAC payments, bond coupon inflows, maturities, and CRR refunds. OMO was central to maintaining high interest rates and attracting FPIs. The CBN sold N8.7trn in OMO bills (a 1,092.00% y/y increase), keeping interbank funding rates elevated and reflecting a financial system deficit.

2025 Domestic Economy Outlook:

- **GDP Forecast:** IMF projects GDP to grow by 3.10%. However, United Capital Research foresee a GDP growth rate of 3.03% in 2025 driven by anticipated improvements in oil production and domestic refining, which will stabilize the economy and enhance the value of the Naira.
- **GDP Rebalancing:** GDP will jump higher due to rebalancing. Nigeria will become the largest economy in Africa after rebalancing. This will motivate the government to borrow more as debt-to-GDP will drop due to rebalancing.
- **Oil Production and Refining:** Oil production is estimated at 1,83mbpin 2025, coupled with enhancements in domestic refining capacity. This could reduce fuel import costs and strengthen the Naira, contributing to economic stability.

- **Crude Oil Prices:** Crude oil prices may taper as the US flood the market with excess oil. The relative peace in the middle east would also drive crude oil prices southwards.
- **Inflation:** We project that inflation will taper at 30.72% in 2025, though IMF was more optimistic projecting 28.23%. Inflation will ease as exchange rate stabilize, and the impact of recent policy changes subsides.
- **Interest Rates:** The MPC may gradually ease monetary policy to stimulate economic growth. This could involve a HOLD decision or adopting a more accommodative stance. However, if inflation remains stubborn, the MPC may maintain a hawkish stance.
- **Exchange Rate:** The Naira may potentially stabilize. In the official market the Naira would hover around N1,407.76/\$ to N1,742.55/\$. In the parallel market the Naira would range at N1,584.20/\$ to N1,822.45/\$. The Naira will mirror broader macroeconomic dynamics like oil revenues, FX market liquidity and government policies.
- **Debt Profile:** Debt levels will remain high in 2025, reflecting ongoing borrowings and rising debt servicing costs.
- **Equities Market:** The equities market will improve due to the impact of the banking sector recapitalization. The potential listings of NNPC and Dangote Refinery would further strengthen the equities market. However, high interest rates and FX volatility would continue to impact the NGX negatively.
- **Fixed Income Market:** The government will continue to borrow to finance its deficit budget. High interest rates would incentivize both foreign and domestic investors to invest in the fixed income market. CBN will continue to use OMO to mop up excess liquidity. Liquidity will determine the direction of rates. Inflows from FAAC payment, OMO, fiscal sustainability concerns, global ease in financial conditions will continue to impact the fixed income market in 2025.